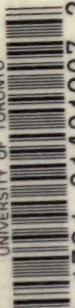


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THIRD INTERNATIONAL FREE TRADE CONGRESS

THIRD
INTERNATIONAL FREE
TRADE CONGRESS

AMSTERDAM,
13-16 SEPTEMBER 1921





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THIRD INTERNATIONAL FREE TRADE CONGRESS.

AMSTERDAM, 13—16 SEPTEMBER 1921.

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His Excellency J. T. CREMER,
Member of the First Chamber of the States General,
Ex-Minister of the Colonies,
Ex-Ambassador at Washington.

Chairman:

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Manager of the Netherlands Bank.

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 " ADOLPHE BOISSEVAIN.
 " BYSTERUS HEEMSKERK - HOVY.
 " DE JONG SCHOUWENBURG-WALLER.
 " VAN REES-PIERSON.
 " SALOMONSON-WERTHEIM.
 " DEN TEX BONDT-BIBEN.
 " VAN VOLLENHOVEN-ROCHUSSEN.

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¹⁾ It has to be remarked that not all the members whose names appear in this list actually attended to the meetings.

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P R E F A C E.

At an International Meeting of Free Traders held in London in October 1920 on the initiative of the Cobden Club it was resolved to hold in September 1921 the Third International Free Trade Congress, which was originally to have taken place in September 1914 but was postponed owing to the outbreak of war. As regards the participation of foreign nationalities the Cobden Club undertook the work of organization, while it was decided that the association "Het vrije Ruilverkeer" should secure the assistance of a Committee to be formed in the Netherlands which should be responsible for all further arrangements. In consequence of these resolutions there was formed in the Netherlands an Organizing Committee of which Mr. H. RUD. DU MOSCH accepted the Chairmanship. This Committee appointed a Sub-Committee with Mr. F. LIEFTINCK JHZN. as CHAIRMAN for the purpose of creating a Guarantee Fund in case the expenditure should not be covered by the subscriptions, while a number of ladies expressed their willingness to be responsible for the reception of the foreign members at Amsterdam. The Organizing Committee considered it to be its first duty to find a CHAIRMAN for the Congress and succeeded in obtaining the consent of Dr. P. J. C. TETRODE, Manager of the Netherlands Bank, to accept the Chair, while Mr. J. T. CREMER, Ex-Minister of Colonies and Ex-Ambassador at Washington, consented to accept the Honorary Chairmanship. Meanwhile a programme of the subjects to be discussed was drawn up by the Cobden Club and decision was come to in consultation with "Het vrije Ruilverkeer" as to its final form. The Cobden Club then published the programme and some twenty papers were lodged with the Organizing Committee and were translated into English and French, if submitted in time, and distributed to the members who had to the number of about 250 meanwhile sent in their adhesion

to the Committee and to the Cobden Club. The Committee received very valuable assistance in its preparatory work from a number of quarters. In the first place it should be mentioned that a large number of Dutchmen signified their willingness to sit on a "Patronage Committee" in order in this manner to make the Congress more widely known in the country by lending it the weight of their name. Further the creation of a Guarantee Fund proved a great success owing to the efforts of the financial Committee and rapidly amounted to a sum of *f*45,000.— which was collected for this purpose.

The Congress was thus able on the completion of these preparatory measures to open on Tuesday the 13th September. An informal meeting was held on the previous evening at the Industrial Club at which a number of Dutch members and foreigners who had already arrived at Amsterdam were present.

A more detailed report of the sittings, which were held in the small Hall of the Concert Hall is given on pages 3—83. In this place mention is only made of the various receptions and other ceremonial occasions offered to the members during the Congress.

On Tuesday the 13th September Mr. and Mrs. RAHUSEN—HOOFT offered an Afternoon Tea in their house at Amsterdam to the foreign members and the various committees, their kind invitation being accepted by the majority. This reception was at the same time an exceptional opportunity for the foreign members to see a beautiful Amsterdam "gracht" house, and the amiable host and hostess are again offered our very sincere thanks for their kindness.

In the evening the City Council received the Congress in the "Nieuwe Stadsherberg" on the other side of the Y. This reception, as indeed was the case with all the meetings, was very well attended in spite of the weather which was on this occasion not so favourable.

The Congress and a number of State and Provincial high officials spent the afternoon of Wednesday the 14th September on the country estate of the Honorary Chairman. The magnificent surroundings and the cordial welcome extended by His Excellency and Mrs. CREMER made this reception also a very successful

part of the programme. It may be mentioned that the Netherlands Railway Company, which earned the thanks of the Congress two days later by providing a special train to Rotterdam, placed a special train for the excursion to "Duin- and Kruidberg" at the disposal of the members without making any charge whatever.

In the evening of the same day the Chairman of the Congress, Dr. P. J. C. TETRODE, assisted by his daughter, Miss H. M. TETRODE, gave a reception to the members of the Congress in the Pavilion in Vondel Park, where a very enjoyable time was spent until late in the evening.

On Thursday the 15th September a number of the members, undeterred by the unfavourable weather made an afternoon excursion by boat on the Amstel.

In the evening the Official Banquet was held in the Restaurant of the Royal Society "Natura Artis Magistra". The Banquet was attended by the Honorary Chairman of the Congress and Mrs. CREMER, the Ladies' Committee, the members of the various Committees and a large number of the members of the Congress, many with their ladies. In a number of speeches the usefulness of the Congress was touched on and a good word put in for a better understanding among the various nations, in harmony with the motto of the Cobden Club, "Free Trade, Peace, Goodwill amongst Nations".

Friday the 16th September was the last day of the Congress, the sittings having come to an end on the preceding day. The programme consisted of a visit to Rotterdam where the members were received in the new Town Hall by the Burgomaster and Aldermen and welcomed by the Burgomaster in a cordial address. Lunch was then taken in the Club Building of the Royal Rowing and Sailing Association "De Maas" and a trip made round the harbour. On returning to the city the official portion was considered at an end and all went their several ways.

Subjects treated at the Congress.

1. How far can Free Trade restore national and world economic well-being; special consideration being given to the following points:
 - a.* Free Trade and Unemployment.
 - b.* Free Trade and Wages.
 - c.* Free Trade and Production.
 - d.* Free Trade and Purchasing Power.
 2. How far can Free Trade restore International Intercourse: special consideration being given to:
 - a.* Free Trade and the Foreign Exchanges.
 - b.* Free Trade and the Gold Standard.
 3. The Evils of Colonial Preference.
 4. How far would International Free Trade remove the causes of international disputes?
 5. The Moral Aspects of Free Trade.
-

PROCEEDINGS.

FIRST SESSION.

Tuesday, September 13, 1921.

HIS Excellency J. T. CREMER, formerly Minister of the Colonies of the Netherlands, and lately the Netherlands Ambassador in Washington, opened the Congress shortly after 10 a. m. He said:

Ladies and Gentlemen,

On behalf of the Committee of the Third International Congress for Free Trade who asked me to be their Honorary President I bid you welcome here.

I have chosen the English language to do so, but that only after some consideration. The graceful, unambiguous and concise French language is, as you know, the universal language for diplomatic intercourse, but the English language has gradually obtained the preponderance in international business circles, and these are mostly interested in the Free Trade question. Besides, the Cobden Club took the initiative in convening this meeting at Amsterdam, and this finally decided my choice.

We are pleased to welcome here the Commissary of Her Majesty the Queen in North-Holland, Jonkheer ROËLL; the Burgomaster of Amsterdam, Mr. DE VLUGT, and members of the Municipality of this City; the representatives of the foreign Legations and of the Consular Corps; of the University and

of the Chamber of Commerce of Amsterdam; and further the members of this Congress, of whom I may mention in the first place Lord SHEFFIELD, President of the Cobden Club — who issued the invitations to this Congress — and his British colleagues, as also the ladies and gentlemen who come from Austria, Belgium, Czecho-Slovakia, France, Germany, Italy, Switzerland, Jugo-Slavia and, lastly, the United States of America, whose International Free Trade League at Boston is represented by myself.

Their wish as expressed by their letters to me is I am sure the wish of all of us. It is: "Free Trade was never more needed by the world than today, and we of this League are hoping that something practical will be done by the Free Trade Conference which is to meet in Amsterdam".

We, members of the Free Trade League in Holland, are proud that our Capital has been chosen for this present meeting, and, allow me to say so, we think we deserve this honour.

Surrounded by countries, who either suffer under low valutas, or who try to defend themselves against the effects of these valutas by anti-dumping or similar protective measures, we still stand firm by our Free Trade principles and intend to defend them against attacks from inside and from outside.

And besides, if you consider not only the 7 million inhabitants of these Low Lands, but also the 50 millions in our Oversea Territories, I think you will admit that we are one of the few countries with extensive colonies, if not perhaps the only one, who during the last fifty years has practised the policy of the open door in these colonies towards all other nations. We do not know of any preferential import or export duties in our colonial trade. The inhabitants of these colonies are free to sell their produce and buy their imports on equal terms wherever they like, and most of our national manufacturers or merchants are the staunchest supporters of this policy, and strongly object to be favoured and consequently weakened by any system of Colonial preference.

May the seeds you are now going to sow on this hallowed soil of international Free Trade, and likewise of international Law and Justice, germinate and prove an important factor in obtaining that Peace on Earth which we all so ardently pray for, but so often violate. (*Applause*).

Mr. H. RUD. DU MOSCH, Chairman of the Organizing Committee:

Your Excellency, Ladies and Gentlemen,

I have much pleasure in informing you that a large number of the members of the Congress have proposed to offer the Chairmanship of the Meeting to Mr. P. J. C. TETRODE, Manager of the Netherlands Bank, and the Vice-Chairmanship to Lord Sheffield, Chairman of the Cobden Club, and to Professor BRUINS.

The honourable members having intimated their willingness to accept office, I feel sure the Meeting will ratify this choice.

Lord Sheffield is not yet amongst us but he will shortly be here and put himself at the disposition of the Congress.

Mr. P. J. C. TETRODE then took the chair and read the following address:

Your Excellency, Ladies and Gentlemen, before we take up the agenda, I propose to send a telegram to Her Majesty the Queen in the following terms: "The members of the Third International Congress of Free Trade now sitting in conference in the Concertgebouw at Amsterdam beg leave to offer to Her Majesty their most devoted respects". (*Applause*).

You will permit me I hope to commence my speech inaugurating this Congress by informing you that I accept your nomination with pleasure and by thanking you for the honour you have shown me in electing me as Chairman of this Third International Free Trade Congress. I take it as an honour to my country which has such a long Free Trade tradition behind it, and for which Free Trade is as indispensable as oxygen is for the lungs.

Yet it is not without a certain measure of diffidence that

I assume the task, now that I see gathered together in this hall the many eminent personages who have come from all quarters of Europe and the United States of America, over whose deliberations I shall have to preside.

My diffidence is all the greater when I consider that it is not my mother tongue that will be used in the discussions and speeches, but languages whose classical lucidity and clearness are proverbial or which in spite of their great similarity show such great differences that they are all the more difficult for a foreigner to handle.

I feel assured of your leniency in this respect. I appeal for your collaboration in making our meetings an unqualified success, and am convinced that my appeal will not fall on deaf ears.

Those who attended the Free Trade Congress which preceded the present one and was held before the war lived in a world totally different from the world we now live in. This world after the great war is different not only as regards facts but also, and perhaps to a still greater extent, as regards ideas.

It is especially this latter aspect that both the younger and the older generations among us must grasp, for whereas the new facts make their presence known automatically and boisterously enough, indeed so loudly that even the most reluctant must take notice, the new ideas march tranquilly onward, often unnoticed and yet irresistible; those who oppose them are left behind, and the economist who, inspired by a righteous zeal for his contemporaries, desires to bear aloft the torch that shall light up their path, will have to set himself courageously to answer the question as to whether the knowledge handed down to him by his predecessor, on which he himself has built and which he has after mature reflection accepted with wholehearted conviction, must be revised, entirely changed or merely amended, or whether it is to remain in its entirety inalterably true.

Let us never forget that the so-called economic laws have not the same character as natural laws. Economic laws are

deduced from social phenomena and if a complete change takes place in social phenomena, we must carefully investigate whether, and in the affirmative to what extent, the economic laws which have so far been valid are abrogated, or whether their effect is perhaps temporarily suspended. Has not the Relativity Theory of Professor EINSTEIN given an entirely different character to many laws in the exact sciences which had up to the present been considered irrefutable, and has not the Theory of Quanta destroyed some of these laws?

Wherever we turn our gaze we see a political rebuilding, a social reconstruction in full progress. Is it then merely an idle question that is put to us Free Traders when we are asked whether a rebuilding of economic doctrines and a reconstruction of economic propositions have not perhaps become necessary?

The faithful Free Trader is convinced that all these changes do not involve any alterations in the truth of his great principle, but he comprehends that the world around us, that the impressionable masses are more than ever in a state of doubt, that they need more than ever their economic leaders; and are not all of us here gathered together inspired with the great desire to kindle the light that shall lighten the darkness that surrounds them, a light whose strength and brilliancy will be proportional to our efforts?

We see so much around us that is collapsing, that it is indeed very comprehensible if we imagine that in the midst of this universal catastrophe Free Trade too must be shaken in its foundations.

The Free Trader has therefore his line of march mapped out. He must examine the fresh facts one by one, test them by his theories and communicate the results of his investigation to the masses.

This announcement to the masses has assumed a very different character since 1914. Or to put it more clearly, the masses to whom the Free Trader must address himself have

become quite different. The Free Trade movement has been by nature a middle-class movement which has indeed enlarged its basis in its later stages, but, as far at least as I am aware, there has up to the present been no considerable propaganda among the working classes.

The social reconstruction we see everywhere forces us to make a change in this respect. Since labour is undertaking more and more the task of government, whether by its direct representation in national or municipal bodies, or by participating in the work of Labour Councils (Whitley Councils) or otherwise, its attention must be drawn to the question of Free Trade. Labour must exercise an enormous influence on the choice between the principles of Free Trade or Protection.

I therefore deem it an urgent duty for the Free Trader especially to go among the working classes and to convince *them* of the truth of the Free Trade principles. It seems to me that he can carry on profitable propaganda among this class. Let him go among them if he feels himself a skilful debater, rich in evidence and in ingenious, convincing arguments, and he will get an excellent hearing from them. Who has a greater interest than the working man in seeing that what he needs as consumer should be as cheap as possible?

The actual sacrifice of labour, management and capital in production is now being investigated afresh by the whole world and the success of the industries in any given country will largely depend on the just and peaceful division of the reward apportioned to each of these three factors. And will not this rearrangement be brought about peacefully all the earlier in proportion as labour better comprehends the truth of Free Trade and perceives the beneficial consequences which Free Trade involves?

That is a further reason to appeal to this new audience.

Permit me now to mention a few of these fresh facts quoted by the present day Protectionist to confute his opponent and which, as I have just remarked, must be faced fearlessly

by the Free Trader and tested by the Free Trade principle.

We have learned from the war, or at least we think we have learned, that there are industries essential to national life.

In these cases the Protectionist no longer comes along with the request to protect his industry, as he cannot otherwise hold out against foreign competition and cannot therefore make profits, but because as he asserts his product has proved to be essential to the national life.

I will take as an example of such industry one which is known to satiety, the dye industry, which, according to the newly found Protectionist argument, is essential to public life because it is essential in cotton, woollen and silk fabrics, in the industries manufacturing straw goods, and in those which manufacture leather, in printing, in the making of ink and in the lithographic industries.

Another argument, the "infant industry" argument, has acquired fresh strength from the course of events and has become a fresh fact in itself. For the war stimulated some industries or created them, both owing to the military requirements necessitating larger quantities of commodities already produced or an entirely fresh production, and owing to the impossibility of obtaining delivery from the old established relations. The Protectionist endeavours to use this new fact as a weapon and he asks: Must we now let all these new industries die owing to a logical application of the principles of Free Trade, or ought we not on the contrary to apply Protection in this case?

We have further learned that countries in which certain branches of industry prospered owed their success not to the natural advantages of situation and soil, but to efficient management, to the strictest possible application of science to industry. Recognizing now this superior management they think a period of protection necessary and they appeal for such protection until, thus speaks the Protectionist, their own country shall have acquired this superior management.

But enough of these facts, which have not the same urgency

for me in my daily work as another event in the international world of commerce; I refer to the very considerable displacements of capital which have been taking place in recent years and are still proceeding undiminished throughout the whole of Europe, in so far as Europe is still regularly participating in international trade. In the cases in which these displacements of capital take place from and to the Netherlands, they are of intense interest to me, from the mere fact that every event taking place in the money market and in the capital market, and most assuredly displacements of capital, preoccupy me very considerably owing to the very nature of my position, so that I am continually obliged to ask myself whether the Free Trade principle is to be applied to its full extent in this case also.

Must foreign capital be admitted freely and ought not the national capital to be protected against invasion of foreign capital?

Are Free Trade or Protection the principles which must guide us with their utmost consequences as regards the importation of capital?

That is the question I wish to touch on and one which, if you are aware of the kind of displacements of capital I refer to — and I shall try to explain them more fully —, is a new question.

I am quite aware that displacements of capital from one country to another are no novelty. Did not London to a certain extent owe its position as the central money market of the world partly to the fact that it sent and continued to send its capital to all the points of the compass?

Are there not innumerable examples of displacements of capital from one country to another?

Permit me to quote a few cases.

SIR GEORGE PAISH, the distinguished and well-known statistician and financier, in a speech delivered in 1913 to the Canadian Club at Ottawa, gave interesting figures relating to displacement of capital. "In the first eleven months of the current year", he said, "we have raised in London a sum of no less

than £ 223 million for new securities and by the end of the year in the neighbourhood of £ 240 million will have been raised in the London market for new securities."

ALBERT MARTINEZ and MAURICE LEWANDOWSKI in their book entitled: "L'Argentine au vingtième siècle" estimate that at the end of 1910 foreign investments in the Argentine amounted to 2,266,000,000 gold piastres, principally from Europe.

Has not France poured French capital in enormous sums into other countries by means of its Banque Hypothécaire Franco-Argentine, le Crédit Foncier Argentin, le Crédit Foncier de Buenos Aires et des Provinces Argentines, le Crédit Foncier du Brésil, le Crédit Foncier Mexicain, its Banque Française et Italienne pour l'Amérique du Sud, la Banque Française du Brésil and numerous other institutions, and also by means of its loans to foreign states and other public bodies?

The same is true of practically all other European countries.

And, to quote another example which again shows how rapidly the United States of North America have changed from a debtor to a creditor country, the "Statist", the well-known English economic weekly, says in its issue of the 14th January 1914: "in the aggregate the unseen obligations of the United States to other countries are now in the neighbourhood of \$ 750,000,000 per annum." The principal of the interest owed by the United States of North America ran at that time into milliards, at a rate of 7 % interest exceeding ten milliard seven hundred million dollars.

Those are pre-war figures from a period when gigantic figures had not dulled us in our judgment of statistical material.

In all the examples quoted here European capital flows to countries overseas in order to assist in the development of these countries and in order to help them to participate in the universal economic exchange more intensively than hitherto had been possible.

Against such displacements of capital from countries where the system of credit is greatly developed to countries where

it is still in its infancy, if they are not done thoughtlessly and rashly, there will seldom if ever be a protest raised by the country into which the capital is imported. However eager for protection the receiving country might be, it always showed itself an ardent adherent of the Free Trade principle when it was a question of admitting capital for the development of its own national territory.

I have however in mind other kinds of displacement of capital which in the eyes of many people possess a dangerous character and as regards which it is comprehensible that even the full-blooded Free Trader might hesitate a moment before rejecting all the Protectionist hue and cry. It seems to me no proof of unfaithfulness to the Free Trade principle if in some cases he were willing to make exceptions.

I refer to displacements of capital to countries where the economic community shows higher development, to countries which comparatively speaking possess ample capital, have highly developed industries, managed efficiently, prudently and yet energetically, and moreover possess a delicately equipped and yet powerful system of credit.

If we now see foreign capital taken to such countries, and industries established in them by foreign countries, and factories built and banks established by foreign countries, may it not be advisable before applying the Free Trade principle here without further ado, first to inquire into the reasons for such unusual phenomena?

Do not rivers usually run from the highlands to the plains, and if I should observe the contrary, must I not say that there are powerful forces at work which neutralize the force of gravity, and is it not proper to investigate them?

When therefore the above-mentioned economic movement sets in, is it not necessary to institute an inquiry into the causes?

Can it be the intention of the foreigner to obtain a monopoly of a certain article or in any case to attain to a position of supremacy?

Has he exclusively an eye to his own national interests or does he put perhaps the interests of the foreign country where he settles rather low-indeed will he perhaps make them subservient to his own national interests?

And if after investigation it should prove that one or more of these questions are to be answered in the affirmative, then, but only then, in my opinion the sensible Free Trader should consider whether protective measures of intervention should be adopted.

But enough of this; it would lead me too far afield to discuss this subject at length; I must not trespass any longer on your attention with it. Other important subjects and interesting debates await us.

But as I have said already, I have put these questions without answering them; I considered them important enough to draw your attention to them.

My object was principally to show that one can be a wholehearted adherent of Free Trade and yet from considerations other than commercial ones hesitate to apply them always in their entirety.

For finally, and this was what I desired to point out, although there may now and again be serious concomitant circumstances which make deviations appear advisable in certain cases, the great principle of Free Trade is not affected thereby.

And therefore we must take care not to injure the doctrine itself by doctrinarianism.

And that is the reason why I think myself fully justified in maintaining that the interests of the nations reciprocally will best be promoted, that the avoidance of friction will best be accomplished, that the great, the true peace, not merely the peace signed and sealed in Treaties, which has hitherto proved unattainable, can alone be approached if our grand principle, if the doctrine of Free Trade, is adopted by all nations.

The greatest moral and material prosperity can only then be attained.

Insight and courage are the great desiderata; may this Congress promote both these qualities in the world around us. (*Applause*).

Lord SHEFFIELD, who was cordially received, took his place at the bureau.

The *President*: Ladies and gentlemen, before we take up the agenda, may I ask if anyone wishes to address the meeting... Then we will take up the first item on our agenda: "In how far can the economic revival, both national and international, be promoted by Free Trade."

I call upon Mr. C. F. STORK to read his paper.

Mr. C. F. STORK submitted to the Congress his paper on this subject.¹⁾

The *President*: Does anyone else wish to address the meeting on this subject? Then I call upon Mr. HOBSON.

Mr. J. A. HOBSON submitted to the Congress a paper on "Protection and Unemployment".²⁾

The *President*: I now call upon Mr. SHAW and ask him if he wishes to address the meeting.

Mr. J. F. SHAW, in response to the President's invitation, read a paper he had prepared on "Free Trade and Production".³⁾

The *President*: Ladies and gentlemen, I now adjourn the meeting for a quarter of an hour. We meet again at a quarter to twelve o'clock, when we will open the discussion of the papers.

On the re-assembling of the Congress the President called upon Dr. VAN GIJN.

¹⁾ See the text of the Paper page 97 of this Volume.

²⁾ See the text of the Paper page 133 of this Volume.

³⁾ See the text of the Paper page 153 of this Volume.

Mr. Dr. ANT. VAN GIJN: I want to tell the meeting that this afternoon at half-past four o'clock, or after the closing of this session, there will be a meeting of representatives of all the nations here, to discuss a motion to be moved at the final meeting of the conference, the object being to intensify the cooperation of Free Traders in all countries. I beg the representatives of each nation to appoint one, or two, or three of their number to attend the meeting, which will be presided over by Lord SHEFFIELD, president of the Cobden Club.

The foregoing announcement was translated into French. A German translation was offered, but was not desired by the German members.

Mr. Dr. ANT. VAN GIJN continued: I will take this opportunity to say a few words about the paper by Mr. HOBSON. I agree fully with him that the question of unemployment is one of the greatest dangers for Free Traders, for it is easy to send a great mass of people to Protection when they have been for a long time out of employment. But the case between Free Trade and Protectionism, as presented in the paper, cannot often be present. Mr. HOBSON said that general unemployment in a country, and in all countries, and in the whole world, is a state of things not comprised in the Free Trade logic. I say that is not quite true. General unemployment in the whole world is not possible for a long time together. You can have seasonal unemployment for a long time, but general unemployment cannot endure very long. Therefore there is reason for Free Traders not comprising this in their logic. In England 15 per cent, in Germany 10 per cent, and here 15 or 20 per cent of the labourers are out of employment, but the cause of that in England and Holland is only that labourers earn a wage much higher than the consumers who are very much impoverished can afford to pay, and the way to avoid that unemployment will be the lowering of the wages. We see in Holland that we have a heavy State insurance against unemployment, and the large amount of unemployment

will remain till the moment that the State ceases to pay this heavy insurance.

There is a second reason why I fear to do what Mr. Hobson advises. State assistance to insurance against unemployment will result in enormous expenditure for the treasuries of the countries concerned, and as the Governments are very strongly influenced by the interests of the finances of the State, as distinguished from the interests of trade, I fear that after introducing State insurance against unemployment they will be more easily induced to impose import duties, because these will not only bring money into the Treasury but will also help to reduce the unemployment expenditure of the Treasury if these duties have the effect of diminishing unemployment — which I do not believe would be the case (*hear, hear.*)

What Mr. Hobson advocates therefore is dangerous from the point of view of Free Trade, and I should like to retain the Free Trade logic and to say that general unemployment will not last very long when you adopt the means that will cure it (*applause.*)

Mr. Dr. GOTHEIN:

Ladies and Gentlemen,

Undoubtedly the strongest argument that the Protectionists have at the present moment is that wages are so high and a further argument is that unemployment is due to the fact that the countries with depreciated rates of exchange are able to produce much more cheaply than they can and that there is consequently unfair competition or dumping. There is no doubt that every falling rate is not only a low rate, a subnormal rate, but the falling rate is a certain export subsidy for a short time. For certain factors of price, interest on invested capital and debts, etc., remain at first at their former level and are paid in depreciated money, nor do wages adapt themselves as rapidly to the depreciation of money in the country itself as is the case with the currency in the foreign

market. In consequence such countries can, if their conditions are sound, produce and compete on the world's markets somewhat more cheaply during such a period, than other countries with a higher rate of exchange. The latter have therefore considerable interest in the disappearance of this state of affairs.

It is however an error to assume that unemployment is caused by this competition on the part of countries with a falling rate of exchange; it is due rather to the fact that these countries are not in a position, when their rate of exchange sinks lower and lower, to purchase from other countries, to take their goods, because their money has depreciated. Let us examine the relation of Germany with its falling rate to the great exporting countries, England and the United States of America. As a matter of fact Germany only exports a small fraction to England and the United States of what she exported before the war, and in spite of that we are faced with this unexampled unemployment both in England and America. Even in the predominantly Protectionist America unemployment, in spite of the trifling competition with Germany, has risen again from 4 to 6 millions within the last few months, and it is the same in England.

Before the war we imported $9\frac{1}{4}$ million tons of coal from England and at present we import practically none because, owing to our adverse rate of exchange, we are not in a position to take English coal, which works out too expensive for us. This was a matter of £ 9,000,000 before the war. At that time we imported from England 400,000 metric cwts of cotton and wool yarns of a total value of more than £ 20,000,000 and at present practically none, or only what is absolutely necessary in order to manufacture certain export goods. That is the cause of unemployment in England in the spinning mills and in the mines, and we are further compelled to make forced deliveries of coal which cut England out of the markets in Belgium, France and Italy which

she formerly had. A similar state of affairs prevails in other domains. It is exactly the same with the United States. The crisis in that country is not a result of competition with Germany but of the decrease in purchasing power in our country, in Russia and in the Succession States. Before the war Germany alone absorbed 16 to 17 per cent of the total exports of the world, whereas today it only takes a tiny fraction. Brazil is suffering from the fall in the price of coffee because Germany is out of the market. If the cotton prices fell to such an extent for a long time and the wool prices as well, it was because Germany had not sufficient purchasing power and the rates of exchange were too adverse in Austria and the Succession States. The real cause of the economic crisis is the fact that several hundred million people, say two hundred million, have had their purchasing power terribly weakened and cannot therefore buy from other states. The position will become all the worse as their rates of exchange fall, for with the further fall they will, in so far as they are industrial states, export more and more of their industrial products, and if they are shut out of England and America they will export all the more to other countries, South and Central America, Spain, Scandinavia, Switzerland, Holland, and owing to the low price of their goods through other large markets being closed to them they will fiercely compete with the industries of such countries. In the countries that protect themselves by means of Antidumping, prices will be kept at a high level and the purchasing power of the masses will be reduced.

If we wish to remedy this exceedingly dangerous state of affairs, which must continually become more critical as the rates of exchange of the impoverished countries depreciate, there is only one way, viz. to make every effort to stabilize the rates of exchange of such countries. For the moment that the rate of exchange is stable, this dangerous dumping competition, which is entirely involuntary and undesired, ceases.

It is therefore necessary to take all possible measures to bring the economic crisis of the world to an end and to get the upper hand of the unemployment which is worst in the countries with the highest rates of exchange, viz. America and England. We must restore free competition and stabilize the rates of exchange of the countries, and improve them a little if possible, so that the countries that are now suffering from the burden of their low exchanges shall not be still further burdened. That is the great problem. If this problem is not solved, then in my opinion the efforts of the Cobden Club and of the Free Traders in all countries will be in vain and the threatened industries will continue to lament and unemployment to increase. But the interests of labour, and in the end the interests of industry rightly understood, aim at increasing the purchasing power at home and in other countries. Only in this way can unemployment be overcome and the economic crisis ended. (*Loud applause*).

The *President*: Ladies and gentlemen, lunch time has now come and I will adjourn the meeting till 2 o'clock, when the discussion will be resumed.

AFTERNOON SESSION.

Lord SHEFFIELD took the chair.

The *Chairman*: I now call upon Dr. VAN EMBDEN to continue the discussion.

Prof. Dr. D. VAN EMBDEN: Allow me to make a few remarks on the paper read by Mr. HOBSON and the arguments we have had this morning from Dr. VAN GIJN. I quite agree with both gentlemen that the question of unemployment is perhaps the most dangerous argument that threatens the cause of Free Trade. There is a sentimental influence connected with the unemployed. We Free Traders ought to bear in mind that that part of the question is the principal thing. Where can we find a remedy against that danger? Mr. HOBSON in his remarkable paper says that we shall have to try to make constructive efforts to prevent unemployment or to make adequate and assured provision for the victims: that this was the most urgent need. But if I quite understood Mr. HOBSON he confines himself to a general recommendation and does not go into detail as to the kind of adequate provision he would propose.

On the other side we find Dr. VAN GIJN calling attention to the heavy contributions from the Treasury, and asking us to condemn that policy and to — I would simply put it — be patient till the several Governments get wiser and stop their present commercial policy altogether. Now, in my opinion, this kind of recommendation does not bring us much farther; for, granted, that we as gathered here understand and are prepared to put in practice that international solidarity which Dr. VAN GIJN

has in view; it certainly would be idle to expect the great mass of the labourers to show the necessary far-sightedness. It is well for people to learn to think internationally. But the amount of broad-mindedness we would be asking from the trade unions and other members of the community in this respect would be considerable (*hear, hear*). This does not take us much farther. If it is not showing a lack of deference to the speakers I would say that their advice will not have any political reality (*hear, hear*). I find reality — something that could have real importance — in the paper of Mr. HOBSON himself. Perhaps I find it there rather indirectly, as I have some objection to the important arguments he uses, on page 6 of the English version. We read at the end of that page, "The most fundamental principle of Free Trade is that a political barrier has no proper significance at all in the sound economy of trade." Certainly, not overlooking that international principle, we should not forget that this argument is true for say only 80 or 90 per cent, and that for the remaining 10 or 20 per cent our present system of production contains elements of a strong national character; and among these national elements that are directed against the international basis weigh most heavily the contributions which the several Treasuries make to the unemployment funds wherewith they counteract the loss of trade.

It is this State element in our system of production that gives the excuse to the Protectionists for arguing that, in order to reduce the heavy demands made on our tax-payers we ought to acquiesce in some kind of Protection.

Now, as on the one hand the advice of Dr. VAN GIJN — the mere stopping of the support to the employed — has politically no chance of being adopted and as, on the other hand, that national, Treasury-element provides only too easily with the pretext, the excuse, for some kind of Protection, then the remedy might be found in substituting for this national element in our productive system an international one. In this respect I venture to borrow a term from a recent event in English

life. You had in England the coal struggle, and national pooling was suggested as a remedy for the trouble at that time. Would it not be possible to come to some sort of international pooling of contributions to unemployment? Would it not be possible to address the League of Nations, and especially the Labour Section, and ask them to study the question of the creation of an international fund, to draw its contributions from the several States, with the object of giving subventions to the unemployed of those industries which might be suffering because the Governments concerned were maintaining the principle of Free Trade? Such countries might receive temporarily money contributions in place of what they might hope to gain from Protection.

We could ask the League to begin the study of the problem. It is in a line with their purpose, which is to conserve peace and goodwill between the nations, and perhaps it would be the most effective means of combating those influences which threaten the freedom of trade. Thus, instead of provoking the hostility of the mighty labour unions and making them enemies we could induce them to show more interest in the cause of Free Trade than they used to do, by drawing their interest in the direction of this international pooling. At the same time I think we would weaken immensely the moral argument, even though it is a shaky one, which Protection uses when it points attention to the heavy suffering of the unemployed. That is the idea I would like to bring before the meeting (*applause*).

Miss Dr. E. C. VAN DORP: We have had a very interesting paper from Mr. HOBSON, and interesting speeches from Dr. VAN GIJN and Professor VAN EMBDEN. This certainly is one of the most interesting subjects that we could deal with in this conference, because what people ask from us now is not the old arguments about Free Trade, but they want us to say what we have to tell them about the present difficulties, how to get humanity out of the quagmire it is in.

I do not agree with Mr. HOBSON that Free Trade does not say anything directly about unemployment. Ordinarily the idea of Free Trade has been expounded in arguments about import and export duties, but it goes much farther than this. The real tenor of the Free Trade argument arose at the same time as political economy arose. It was this that people got an insight into the economic process, into the connection between various parts of the economic process — the process of production and barter, — and that the more you produce the more you would get in barter. This idea does not limit itself to imports and exports, to international trade. It also is applicable to national trade, not only in buying and selling but also to national production. It also regards the relation between employers and labourers. It also regards the labour question directly. This is what I tried to explain at the conference in London last year. The real concept of Free Trade is free competition also between employers and labourers. Mr. HOBSON's opinion that, in general, production can never be too large for consumption, may be true in theory, but in reality it is sometimes otherwise; and now as soon as you find there is a contradiction between theory and practice there must be a flaw in the argument in some way. I do not believe it is quite true that Free Trade says there can never be general unemployment. It has only said that you can never produce more than you can consume because you always like to consume as much as possible. Now what is unemployment? I should like to call unemployment the alarm-signal, a signal that something is wrong in production. Production is not a mechanical process but a psychological one. There will always be a certain time elapsing before people understand that something is changing. Unemployment tells you that something is changing. Generally, unemployment shows you that labour is too much used in one branch of industry and ought to be moved to another branch. You must listen to this alarm-signal. If you do what Professor VAN EMBDEN wants

and take the alarm-signal away, it may mean that you will go in the wrong direction for such a long time that you may never find the right one again. What would happen is just what we see today. The alarm-signal has been taken away. Not only that, but another bad thing is that you make wages quite artificial. The employer cannot take the men he wants, and cannot pay them the wages he would pay if there were free competition. We are just bound down by the labourers' organization. You will all confess, will you not? that there is no liberty in the present state of things. What is happening now is madness. The whole world cries for production. The thing we are doing is helping the unemployed, who could work if they accepted work at a lower wage, and thus making the trouble last longer. Professor VAN EMBDEN will say I am lacking in sense for reality and that we cannot act against the wishes of the labour-world. But we must try to oppose, if these wishes bring us to ruin. It is no use continuing to conceal facts. I think that any artificial interference with wages will lead the world still further into ruin. The only good thing that exists in the present labour arrangements, in my opinion, is the idea of the labour exchange, the idea of the intermediary in labour affairs, because this is not working against economic laws but helping them. This idea is to try to give everyone his place as soon as his place is open. I do not think that free competition is an ideal state of things; but there is no ideal state of things in this world (*laughter*). Man himself is not ideal (*laughter*). And when you do not reckon with that, you attain just the contrary of what you aim at: you get not a heaven on earth but a hell. The only thing to do is to set to work to make people understand. We must try to get the labourers to understand, because if they do not the only possibility is just ruin. Our first aim should be to see that the whole thing is understood by the workmen (*applause*).

Dr. BERNHARD DERNBURG: We have the remark that the

labouring class do not understand, and that some Free Trade arguments must be omitted because of that. But I can point you to some early resolutions of Trade Union Congresses which show that the labourers were the first to see that ruin would follow the state of things which has been referred to. I think more should be made of the labourers' point of view.

The free trade movement has been retarded by neglecting this side of the matter (*hear, hear*).

As to Professor VAN EMBDEN, I would say do not try to pack more on to the back of the League of Nations. They are already pressed with a mass of small matters. This body is young. I hope it will become strong. I hope, too, it will be so changed that it will become a real world-body (*applause*). But as to the contribution of millions of pounds sterling, this would partly have to come from nations which have nothing to do with Europe at all. The only true way is to go back to the inherent principle of the Free Trade argument. It is not only an economic argument. It is a mentality: economic free trade, in interior politics. It means the open door, it means liberalism in foreign politics, good-will towards all men, an equal opportunity. It means that every toiler should have a fair share for his work and every employer a fair share for his direction. It is the very reverse of the national barriers which are constantly being built up against international prosperity. We are farther away from the idea of Free Trade than we ever were before. Let us stick to our old thesis of the breaking down of the barriers between nations (*applause*).

The *President*: We now pass on to the second item on the agenda: "Free Trade and Exchange" and "Free Trade and Anti-low-Exchange (dumping) measures". I call upon Mr. VAN DER VIES.

Mr. A. B. VAN DER VIES submitted to the Congress his paper introducing this subject.¹⁾

¹⁾ See the text of the Paper p. 195 of this Volume.

Dr. ANT. VAN GIJN: Mr. Chairman, ladies and gentlemen, I hesitated at first as to whether I should speak a few words about the paper of Mr. VAN DER VIES in the Dutch or in the English language. Of course, I can express myself better in the former, and one wants a good deal of courage to speak English from this place. Not because of our English visitors. I know that they are grateful if a foreigner tries to speak their language, and that they exert themselves to understand even the worst pronunciation. But one wants courage to speak English because of his fellow Dutchmen, who are very severe critics in matters of language. Foreigners usually do not know that in Holland a fool who speaks foreign languages very well is valued by many people much more highly than an intelligent man who mutilates a foreign language (*laughter*). That is the reason why many Dutch people who speak the English language well enough for English visitors notwithstanding hesitate to speak at international congresses in their own country.

But, after all, the English form the bulk of our guests, and so I think I must take the risk of some comments from my countrymen as to wrong words and bad pronunciation (*laughter*).

I have often heard lady and gentleman visitors at a Free Trade Congress complain that the discussions were sometimes dull because there was no opposition. There exist only a very few pronounced Protectionists, and as a matter of course they do not visit our congresses. Most people who plead for import duties are "Fair Traders"; they pretend to be real Free Traders but they are Free Traders only when the whole world is free-trading. Indeed, these Fair Traders are the most dangerous of all adversaries. Really they do not understand anything of the principles of Free Trade or the arguments for Free Trade. They, too, do not usually visit our congresses, or at all events they do not usually speak at our congresses or write papers.

Therefore we must be very grateful to Mr. VAN DER VIES for being so kind as to write a paper for this congress from

the point of view not of a Free Trader but of a Fair Trader (*laughter, and hear, hear*).

He comes to us as the wolf in the fleece of a sheep! (*laughter*). The fleece of the sheep we find on the first two pages of his paper, where the author highly praises Free Trade principles; but on the next pages everybody who has any knowledge of the particularities of the Protectionist wolf discovers under the fleece of the sheep the paws of the wolf. So, for instance, on page 3, where the author employs the very exaggerated expressions of the real Protectionists.

A Protectionist never will tell you that an industry is hurt or hampered by foreign competition. He always tells you that the industries are killed, smashed, ruined, and other similar terrible things (*laughter*).

Another feature of a Protectionist mind we find in the paper in so far that it only speaks of the interests of industry. For the author, as for all real Protectionists, the notion is that Dutch or British interests consist of nothing but the interests of some industries. The only thing that there is to be done in the world is to safeguard industries. For Mr. VAN DER VIES there are no such things as the interests of the consumers (*hear, hear*). I think that for him, as for most of the people who have Protectionist minds, the consumers consist only of a lot of loafers, of idle men. They absolutely forget that all producers are also consumers, who in that quality have a great interest in low prices of every article but those they produce themselves (*laughter and applause*). They forget that consuming is the real goal of all economic exertions, and that producing is only the way to reach that goal.

Another paw of the wolf we find on page 199, where the author tells us that people who object to import duties in the special case in which he himself thinks them necessary are dogmatists who sacrifice the industries of their country to their dogmatic principles.

On page 199 we see that, from the very moment when

Mr. VAN DER VIES has not enough knowledge of the real basis of Free Trade to safeguard him from Protectionism, he is of the opinion that the old doctrines of Cobden and Bright ought to be revised, or even quite abandoned.

The muzzle of the wolf, however, we find on page 197, where we read that in the case of export premiums granted by one country to an industry, all other countries must safeguard that industry by means of import duties equalling the export premiums. And as Mr. VAN DER VIES is of opinion — a very wrong opinion, I think — that the German exchanges now form a kind of export premium for all German industries (agriculture included), his paper is a plea for very high import duties on all goods (foodstuffs for men and cattle included), and so he displays himself as the most formidable Protectionist we can imagine (*laughter*).

I think the paper of Mr. VAN DER VIES has three big mistakes. First, the one I have already pointed out, that he thinks, like all real Protectionists, that there is only one vital interest for a country, and that is to see that its industries can make very high prices for their products.

Now, I agree that it is indeed greatly to the interest of a domestic industry that it should make high prices abroad in order that a big quantity of commodities can be got in exchange for the exported goods. Mr. VAN DER VIES, of course, does not like these high prices, for he does not like to get goods from abroad. In his line it should be to give our industrial products quite gratis to the people of other countries in order that we may not get in exchange those horrible foreign products which compete with our national products (*laughter*).

But, be that as it may, at all events no people has the power to make its products dear abroad except in those cases where it can through military power compel other peoples or colonies to buy what it produces, at high prices. As a rule a State can make only inland prices high. And now I contend — and every real Free Trader will also contend — that in

doing so a country is doing the worst thing it can do. It sacrifices the interests of millions of consumers for the enrichment of ten or perhaps a hundred thousand producers of a special commodity (*hear, hear*). And, doing so, it seriously hampers its export industries, much more than it favours the protected industries.

It is an absolutely wrong view that wages and profits raised artificially by means of import duties, at the cost of high inland prices, ever can be profitable for a whole nation (*applause*).

Indeed, entrepreneurs will tell you that their labourers get an advantage from the high prices of the goods they produce, caused by import duties; and labourers often believe it! But that is only the result of the mistaken notion that an increase of 10 % in wages is a profit, even in cases where the prices of the commodities which the labourers consume are rising by 15 %. Most labourers, alas! think only of the amount of money they get and do not ask what is the purchasing power of the money.

The second mistake of Mr. VAN DER VIES is that he thinks it is a real loss for our people when another set of people likes to make its goods cheap to us. I think that Mr. VAN DER VIES would be very glad if all the nations of the world would conspire to send to our country every year a milliard florins' worth of goods quite gratis. The Dutch national income would rise by that liberality by nearly 50 %. But how then can he consider it a loss for our country when one of its neighbours sends four million florins' worth of goods at half the price? It is because he sees nothing but the interest of the relatively small body of producers of these very goods.

The third mistake Mr. VAN DER VIES makes is that he thinks the low rate of the German exchange is the real cause of the competition of Germany. Mr. VAN DER VIES so far sees no further than the man in the street, who has the same silly opinion. The very fact that the German mark equals one

penny instead of twelve pence makes no other difference for industry and trade except that all accounts are twelve times as high as before. That which really disturbs industrial and commercial relations is the fact that the mark is less depreciated against a lot of goods and services in Germany than against many other goods and services in Germany, and especially than against all goods and services on the world market. That and that only is the reason why some German commodities for the production of which only relatively cheap services and raw material are used can be sold abroad at low prices.

It must be admitted that the disorganization of the German monetary system may cause a lot of shiftings in the industries of several countries. In ordinary times the division of labour between various countries depends on the real cost of production — real in contrast with the money cost, — which then adapts itself to the real cost of production, as I have demonstrated in the appendix of my paper.

In this extraordinary time there are more and other factors which rule the logical division of labour between two or more peoples. And these new factors bring important shiftings in the general division of labour and therefore compel many industrials to look for new ways. I admit that such shiftings are very disagreeable for the industries concerned. I admit that these shiftings can be a loss even for the whole nation concerned. But he who tries to prevent these shiftings by preventing all logical division of labour itself, is merely throwing the handle after the hatchet, or, as we say in Holland, throwing the child away with the bathing water (*laughter*), for a logical division of labour between nations no less than between individuals is the first of all the conditions necessary for that big production of goods which we want so much in these times of scarcity.

I will not deny that the present position of some industries in Holland and in England is very disagreeable, and that there is always a danger that still more industries will be hurt — not ruined, for the cases in which a whole industry

is ruined are very rare. I admit even that beside the monetary disorganization of Germany there is another still more important cause of shifting in the division of labour, viz., the payment of the German compensations. The monetary disorganization of Germany results only in Germany exporting and importing other things than she should do if there were not such a disorganization; the payment of the compensation, however, leads to immense surplus exports from Germany. These exports are real gifts for the receiving countries, but nevertheless they are disagreeable for the industries that provided the receiving or the neutral countries thus far with the goods concerned.

But it is one thing to admit that there are causes for industrial difficulties, and another thing to admit that it is possible to safeguard industry against them by import duties. Of course, an import duty can divert the difficulties from some producers, but in that case it will bring the same difficulties to other producers of the same country. Every import duty will produce new causes of industrial shiftings, with all their losses for those concerned. Germany must have big export surpluses, first because she has to redeem milliards of marknotes now retained in various countries for speculative purposes, and secondly because the war compensations can only be paid by great export surpluses. I always wonder how there can be any doubt about this point. We often read that the compensations must be paid in money, not in commodities. But paying in money is only a provisional form of paying in commodities and services (*hear, hear*). Everybody knows that Germany has not many milliards of gold. Germany was condemned to pay 120 milliards in real gold and nothing but gold. Then the only way would be for Germany to buy back every year, by sending goods, the gold delivered in the previous year; and so, after all, she would still be paying in goods.

Germany, paying its current debts in marks now retained

in foreign countries, and paying the compensation debt, must send enormous quantities of goods abroad which she should not otherwise send, goods which she was not exporting before, or not in such quantities. This export must shock, must agitate heavily, the industrial conditions of all other countries — and of Germany herself. This is an inevitable consequence of the compensations and of the disorganization of the monetary systems of the central countries. It is absolutely impossible to divert that shock and the shifting in the international relations it causes. You can avoid it perhaps temporarily in some industries at the expense of the whole nation, but you will in that case inevitably transfer the shock to other industries which perhaps had never for a moment dreamed that they ever possibly should have to face German competition. All attempts to avoid for some producers the disagreeable consequences of the situation in which they find themselves will only transmit the evil always farther and farther.

And convinced as I am that the compensations are a great advantage, taking them all in all, for the nations that receive them, I am not sure that they would not result in a great loss even for those very nations if they tried to protect the industries most exposed to German competition against the inevitable drawbacks of these big extra payments from State to State.

Mr. VAN DER VIES makes himself very easy when he says that we have nothing to do with the practical side of the anti-dumping measures. Whoever advocates such measures cannot get rid of the practical side. The anti-dumping duties are not only quite wrong in theory but they create also insurmountable difficulties in practice. It is absolutely impossible to fix the rates just so high as to equal the so-called advantage of the German industry concerned.

It is absolutely impossible to do that in a just way because the handicap of the British and Dutch industries which is to be equalized is changing almost every day, now because the mark is going down or rising abroad, then because the value

of the mark is changing in regard to wages and raw materials of the different German industries. Here there is a very great difference as compared with real export premiums, which Mr. VAN DER VIES speaks of in his paper. Only by charging very high duties on nearly all kinds of goods, with no difference whether they are imported now or not imported till now, can you be sure to succeed in protecting your industry against German competition in your own country. And by doing so it is obvious that you will kill absolutely your own export industry. It is also obvious that, doing so, you should receive in state real Protectionism, to reign in your country for many years, for there is no tyrant whom it is more difficult to turn out of government than Protectionism once raised to the throne (*hear, hear*).

Fancy for a moment that all countries in the world charged a duty of 100 % or more on all German goods in order to protect their own industries against German competition. The only result would be that marknotes now retained outside Germany would grow almost worthless, and that the compensations in fact would be doubled or more than doubled. But in case Germany paid them nevertheless, the industries of other countries would after all suffer in the same degree by the shifting in the division of labour as if no import duties were charged at all.

It is quite wrong to say that Germany now has a great advantage from low exchanges. The exports of Germany increase, but only one who is absolutely dazzled by the interests of a few German entrepreneurs of export industries can reckon that as a great favour to Germany. In Germany, it is true, nearly everybody can find employment. But why? Because the real wages are very, very low in Germany, while in England and Holland the wages obtained by most of the workers are much higher than their labour is worth to the bulk of the impoverished consumers. That is the real cause of unemployment in these countries.

But, be that as it may, the pure Protectionism of Mr. VAN DER VIES, disguising itself in the fleece of the sheep of Free Trade, can only make things worse and worse. Who wants to avoid consequences must abolish causes, and if that is not possible he must make the best of it. No quackery suggested by the selfishness of some entrepreneurs can give any real help. A rich class of entrepreneurs is a nice thing, but not if they are enriched at the expense of the whole nation (*applause*).

SIR GEORGE PAISH: Mr. Chairman, ladies and gentlemen, in the paper I am about to read to you I have made an attempt to deal with a very difficult situation in a practical manner. It is not, I hope, mere theory; it is an effort to make suggestions that will help the world out of its present misfortunes. I think there are few people as yet who understand how great that misfortune is. Those who do understand are, I think, more anxious than they have ever been — I believe not only now but at any time. The world is in a state of extraordinary anxiety, and it is in view of that situation that I read you this paper ¹).

Professor Dr. C. A. VERRYIN STUART:

Mr. Chairman, Ladies and Gentlemen,

The reproach has often been levelled at Free Trade Congresses that only the converted take part in them and that in consequence the debates were hardly ever sufficiently controversial. Our present meeting does not deserve this reproach. Indeed there is amongst the papers one at least which is inspired by pure Protectionist ideas, notably the one read by Mr. VAN DER VIES.

The honourable speaker is amongst those who believe that

¹) See the text of the Paper p. 201 of this Volume.

it would be advisable to revise, or even to throw overboard, a goodly number of the economic doctrines accepted up to the present.

I by no means agree with this point of view; for my part I believe rather that the economic misery that oppresses the world at the present time could largely have been avoided, and could even still be attenuated, if those who are at the head of public affairs showed that they were in the possession of the fruits of economic science and were ready to take them into account.

Nevertheless I should be able to agree with Mr. VAN DER VIES' opinion, if what he says on page 197 of his paper were really one of the principles of Free Trade theory.

Without proof to the contrary I do not admit that the theory of Free Trade has ever demanded the encouragement or the safeguarding of home industries. If this were so, we should indeed be obliged to revise the theory on this point. Free Trade theorists have only consented to a departure from their doctrine in the fairly rare cases when a policy of retaliation held a promise of the return of another nation to Free Trade practices.

Is there in the disastrous fall of the rate of exchange on various countries a valid reason for taking defensive measures against imports coming from such countries? I submit first of all that the use of the word "dumping" in this respect is by no means justified. It is not a question of selling to a foreigner at a price lower than that paid by the fellow countrymen of the exporter, nor of selling at lower than cost price.

We are dealing with one of those numerous cases in which the foreigner can sell at prices lower than the home producer can command, even if this possibility is caused at the present time by circumstances of a special character.

It follows, in my opinion, that all the arguments that can be rightly invoked against Protection are also applicable in this special case. It remains true in particular that countries with

a low rate of exchange do not by any means make us a present of their imports, i.e. these imports constitute an obligation to export. It is also true that the imported goods very often consist of raw materials or tools necessary for the exporting industries which would be hampered if the price of the materials required by them were increased.

From the fact that imports inevitably involve exports, it may be concluded that it is absolutely impossible that the imports from countries with a low rate of exchange should ruin the entire industry of a country whose currency is not depreciated. The imports of goods and services must of necessity balance the exports.

The balance of payments is necessarily always in equilibrium if the opening of a credit is only considered as a service rendered. It is certainly a painful evolution of economic life to adapt itself to the new conditions created by the war and by the defeat of the Central Powers. But a country that desired to avoid this evolution by means of a customs tariff would prove by this very fact its desire to crystallize its economic structure in the form that it had acquired before and during the war. That would be all the more fatal as it was the war itself that made a large number of industries prosper artificially.

Those who appeal to Protection to defend them against imports from countries with a low rate of exchange do not in my opinion take sufficient account of the extent to which the fall in the rate of exchange influences the imports and exports of the country in question.

It is not because the monetary unit, measured by the general level of prices, has lost a more or less considerable portion of its purchasing power that this or that country can export more easily than formerly.

The gold value of the monetary unit as such has no importance. What is of importance is the fact of the *fall as a movement*, and of the unequal fall in the various countries and not the *fall as an accomplished fact*. This movement in the rate of

exchange, so long as it lasts, gives a special stimulus to exports. As soon as it has ceased, the fall no longer exercises any influence after a period of transition which, under Free Trade, could not be of long duration.

It follows from what I have just said that protective duties, accepted as a remedy for the influence exerted elsewhere by the fall in the rate of exchange, must also be amended from day to day because the movement of the rates has not yet come to an end, and also that the "anti-valuta-dumping" policy leads inevitably to a system of differential duties. This continual revision would not be possible in practice. The defensive measure would always come too late, unless very high tariffs were set up so as to keep ahead of the movement. It would probably be preferred to keep on the safer side, but it is evident that we should then be absolutely under protection, and the differentiation of the duties, according to the unequal fall of the monetary units in Austria, Germany, France etc. would mean the creation of a cause of very serious international friction. If we wish to avoid the grave difficulties, well known to those who have studied the question, to retrace our footsteps, from the time when the road to Protection is entered on until the time when the relative value of the monetary unit in the countries in question is established — a consummation that the partisans of the "anti-valuta-dumping" must desire — it must be admitted, it seems to me, that there is reason to be on one's guard against the application of this theory. This is all the more necessary since it is perhaps permissible to hope that the grave problem of the stabilization of the exchanges, the urgency of which is now universally admitted, will be solved in a not too distant future. As for myself, I think that the cause of the very fierce competition especially on the part of Germany is to be found elsewhere. The extraordinary indemnity that this country has to pay compels it to export at all costs and only retain for its own population the bare necessities of life.

I do not wish to touch here on the question as to whether it will be possible for Germany to meet the payments she has been obliged to assume; nor do I wish to examine whether it is in the interest, rightly understood, of her victors to encourage the growth, by means of the indemnities, of an enormous productive force which, when these have come to an end, they may not be in a state to resist. But those who complain of the imports from Germany have, it seems to me, no choice but to unite in order to obtain a radical revision of the Treaty of Peace.

In reference to this I will take the liberty of making a short observation.

In his excellent paper Mr. NORMAN ANGELL once more draws attention to the fact that Protection is based on antipathy towards the foreigners, a mental attitude which is both economically unreasonable and morally inadmissible.

So long as "Goodwill among Nations" is not generally adopted, I am afraid the realization of Free Trade has not much chance of success. There is certainly a reason for pointing out this causal connexion in an international meeting for the propaganda of Free Trade which some very distinguished French and Belgian Free Traders have refused to attend owing to "Hatred among Nations". In such an atmosphere the seed, still so frail, of Free Trade ideas cannot develop and thrive. (*Applause*).

Miss Dr. E. C. VAN DORP: I think you could describe item 2 on the programme as the connection between Free Trade and the Currency Question. These questions are most intimately connected, and the connection is very striking. Free Trade has been a fight against mercantilism, which said that you have to export goods in order to import money. Now, it is very striking that this mercantilism has never died. You find it everywhere in the daily papers, that every country must try to export as much as possible. That is still the idea conveyed to the minds of the people. It is still prevalent,

and it endangers Free Trade in two ways, which I find indicated in the two items of point 2 of the programme — by the opinions about the influence of exchange upon imports and exports and the opinions about the gold embargo (Free Trade and the Gold Standard). I have been requested to write a paper on the subject and I have done so, but it has not been printed. The subject is a most difficult and complicated one, and it is very difficult to explain it well verbally. But I can limit my remarks because much has been said already of what I intended to say. I just want to examine this point, which seems to me rather remarkable — what is the reason that this connection between the currency question and Free Trade is so little understood, and that there are so many errors in regard to it?

The reason is that the Free Trade school — it is their great and immortal merit — have eliminated money from their reasonings. They do not occupy themselves with money at all. Hence now that we are in very difficult circumstances we are altogether quite unprepared before these monetary questions. For we use money in barter, and we do not use one sort of money but many different sorts of currency, and it makes the question so complicated that we cannot see through it. We were not prepared.

One of the principal errors on this point is that countries with a low valuta should be able to export, while others should not be able. This has already been dealt with, and I only want to emphasize it because I feel it is very important that we should think of it — that the reason why Germany exports so much is because she has to pay much. It is very ridiculous that we should call it a favourable balance, whereas it is really now an unfavourable symptom. The other question is that of the gold embargo. It is very striking that this is against Free Trade principles. We want to have free exportation and importation of everything, and yet Free Traders as a rule were in favour of this embargo. I think the

reason has been that everyone was afraid that gold was going to flow away. But the gold cannot flow away everywhere. How must the Free Trader stand against the supposition that gold would flow away? Gold does not trickle. It is exported. There must be a reason why it flows away, and commercially it does so when there is a profit in sending it away. There is a profit in sending gold abroad when it is more expensive abroad, when gold is cheaper, in terms of money, at home than abroad viz. when currency is depreciated. So you might say that the gold embargo was instituted under the supposition that the currencies would be depreciated; that this method, which is against Free Trade principles, has been adopted in many countries because of the fear of currency depreciation, and that, finally, it has in reality been the cause of currency depreciation, because it annihilated the standard of currency value. The only thing to do to get us out of the exchange misery is to establish again the gold standard. You will know that this is the opinion in the greater part of England among the English bankers. It is the first step to be taken against the exchange misery. Of course, there are difficulties. We are so far from normal conditions now that it is much more difficult to re-establish things. In closing I would say it is a very great thing for Free Trade that you can prove that it does not only give the solution of the trade question, but it also gives the solution of the labour question and the solution of the currency question.

The *Chairman*: The Secretary has something to announce to the conference.

The *Secretary* (Dr. P. J. PRINSEN GEERLIGS): As one of the secretaries of the present meetings I would like to call attention to the fact that we have an office in the next room, where all members who have not received their cards and the additions to the programme can get them, and where all information will be supplied. You will also find there some

papers that arrived very late and have just come in from the printers, and various other documents. There is also the question of the police regulations. If these have not yet been complied with in any case, we will attend to this matter if members will leave their passports with us.

Dr. ANT. VAN GIJN: With reference to the announcement I made this morning, I want to say that we will meet tomorrow at 9.30 a. m. instead of this afternoon. I shall be glad to see the representatives of all the nations represented in the Congress.

The session was adjourned at four-thirty p. m.

SECOND SESSION.

Wednesday, September 14, 1921.

Presidency of Professor Dr. BRUINS.

The *Chairman* took the chair at 10.15 a.m., and in opening the sitting said:

Ladies and gentlemen, on the agenda the next item is "Colonial Preference", but as the debate on item 2 has not yet been exhausted I propose to resume the debate on that item. I submit the proposal to the conference. — There being no objection the *Chairman* continued: I hope that ladies and gentlemen who address the meeting will note that we cannot give too much time to this subject. I would also propose that we begin with No. 2a: "Free Trade and Exchange", as dealt with in the paper by Mr. VAN DER VIES, and that afterwards we proceed with No. 2b: "Free Trade and the Gold Standard."

Professor Baron d'AULNIS DE BOUROUILL:

Gentlemen,

Among the numerous papers submitted to the Congress there are two that have particularly attracted my attention. I refer to those by Mr. VAN DER VIES and Mr. HOBSON which, while they relate to subjects 1 and 2 are also germane to No. 3 of the Agenda, which treats of differential tariffs. It is not here a question exclusively of "colonial preference", but also of other preferences that create differential tariffs.

If it is desired to neutralize the advantages that German manufacturers obtain from the rate of exchange, we come inevitably and directly to differential tariffs. In fact it is not only a question of neutralizing the advantages of the German business men but of those of Belgium, France and Italy, since the rate of exchange is low in all three countries. It would then be necessary to set up different compensatory duties in Holland on German, French, Belgian and Italian exports.

What confusion such a system would cause! Not only would these differential compensatory duties have to be checked by certificates of origin, which would cause endless difficulties, but they would have to be regulated as circumstances continually varied. Every week the Belgian and French franc, the Italian lira and the German mark have a different quotation.

Now in countries where the Constitution stipulates that the taxes must be established by law and the customs duties are fixed by Commercial Treaties approved by Parliament, it is not possible to be continually modifying these taxes and duties. Such is the case with the Netherlands. It is impossible to do so, not only in regard to the law but also in regard to commerce, which must know in advance the customs duties that it will have to bear. Every business man has a right to know how he stands in this respect.

As for myself, I quite understand that protection should be desired for industry, like that of Holland for example, suffering from the artificial exports of Germany and other countries with a low rate of exchange. Nevertheless recourse must always be had to practical measures when tariffs are concerned. Differential and compensatory tariffs will be unsuccessful.

That is the objection I wished to bring against Mr. VAN DER VIES.

Mr. HOBSON, abandoning protective customs duties, advocates the conclusion of some arrangement or other, as, for example, the organization of insurance against unemployment.

The experiments made here and elsewhere have not produced

favourable results and are not such as to encourage us to go further in this direction. Why? Because insurance is a subsidy, a stimulus to idleness. Instead of encouraging work, unemployment insurance favours shirking and changes the psychology of the nations and of the working classes.

What must be done if we are to give up the system of unemployment insurance? There is only one thing to be done, viz. to introduce to the greatest possible extent Free Trade, which is the most powerful means of assisting the productivity of a nation.

The famous Scottish writer, ADAM SMITH, proved in his celebrated work "The Wealth of Nations" that work is the source of riches, that the international division and freedom of labour are the conditions of great productivity. Let us therefore keep in honour this idea of the division of labour amongst the nations. It is the only way of increasing production.

As regards wages, I think they are too high in my own country and that efforts must be made to reduce them. It is true that labour will not easily accept this reduction, which is, nevertheless, the only means of improving the present situation.

In the circumstances in which we are living, I merely see in protection against the rates of exchange a narcotic administered to the patient, not to cure him, but to relieve his sufferings. This narcotic may reduce his sufferings to a certain extent, but it will finally bring the poor wretch to the grave. This is what we must avoid. We must keep society alive. (*Applause*).

The *Chairman*: I may say that the train for this afternoon's visit leaves Amsterdam at 1 - 25, so we must finish the sitting at 12 o'clock. So I believe we can devote the time until 11 o'clock to the present subject, and then we will go on to the next item. No doubt before that Mr. VAN DER VIES would like to reply to what has been said.

LORD SHEFFIELD: From the economical point of view the disturbance of the exchange is of vital importance, but I do not agree that the existence of a debased currency is materially a question of Free Trade. Free Trade is not co-extensive with economics but only an important principle which we think necessary to sound economics. But if the question of debased currencies and a low exchange is important from the point of view of the people who are anxious about industry I quite agree with the last speaker that it might be desirable to do something to readjust the balance of debased currencies, though the practical difficulties would be overwhelming. But I cannot agree that it is for us to readjust the debased and fluctuating currencies of the world. As you know, there are in horse racing two kinds of racing, one in which all the competing horses start equal and the other in which each horse is handicapped in accordance with his previous record and other things. Those who want to deal with debased currencies seem to me to want to introduce a handicap from some fluctuation in the duties to meet the differences in the various countries (*laughter*). But all those ideas are based upon the supposition that it is for a country to look after the interests of the producer, and not those of the consumer (*hear, hear*). It is said that it is unfair to the producer to be undersold by countries with debased currencies. The last speaker spoke of the injustice done to Holland by importations from Germany. To my mind that is not a misfortune but the reverse. It is only those who look exclusively at the producers' interests who have the idea that injury is being done. But the Free Trader thinks it is the interest of the consumer that should be considered, not the interest of the producer. If the producer cannot produce at such a price and quality as to enable him to command the custom of the consumer he must give way to the people who can, and not attempt to urge that you must consider the welfare of the producer. To adopt a method of protecting a producer whenever a change in circumstances enables another

man to supply goods at a lower price seems vicious (*hear, hear*). It is a great nuisance to any country to have a debased, and still more, a fluctuating currency, for the curse of these paper currencies is not so much that they are debased as that they are fluctuating. We know from experience. We have traded for years with countries having hopelessly debased currencies. The South American dollar is sometimes very low. But if you can get it stabilized it does not matter so much. The difficulty of the trader is that he does not know what the price of, say, the German mark will be. The whole of the Asiatic trade of Europe has been affected considerably ever since silver was demonetised, largely by countries whose currencies were debased and seriously fluctuating. At the present moment Lancashire is suffering from the attempt of our Government to stabilize the rupee at 2 s., when in the open market of the world it went down to about 1 s./2 d. The Lancashire trader was faced with the failure of his contracts. But business men have got on, as in years past: they have written-off their losses, and now they mean to go ahead again. But if you get the Government to make a handicap — for, mind you, the quality of your horse changes: no one would undertake to make a handicap for me, for instance (*laughter*) — as soon as you get the Government to make a handicap in trade there will be further trouble. At any rate, any man with an instinct for stable trade ought to wish that currencies should be stabilized. It would make all the difference if you could be sure that the currencies of the world would not go downhill from where they stand now. The uncertainty is the bad thing. But it cannot be dealt with by Government, and ought not to be if it could. I feel that while the question of exchange is vital for international trade it is not a question which comes under the head of Free Trade (*applause*).

Professor RICCARDO DALLA VOLTA (Florence).

Ladies and Gentlemen,

As I am not able to express myself correctly in English nor wish to use my mother tongue, I am obliged to address you in French.

Before proceeding to the discussion of the question submitted to us, I should like to express my deep satisfaction at being in this beautiful city and this country which reminds me of my own and especially of Venice. I should also like to thank the Committee for the charming hospitality that has been extended to us.

I represent in this Congress the Academy of Political and Agrarian Economy of Florence, one of the most ancient in Europe, founded in 1753, which has always remained faithful to the principles of the freedom of trade. As the Academy desired to be represented at the Congress by its Chairman, I bring you the hearty greetings of my colleagues and the Italian Free Traders.

Gentlemen, there is no need to prove to convinced partisans of Free Trade, such as you are, the necessity of the Free Trade policy and of the fundamental duty incumbent on the nations to reconstruct the New Europe on the basis of liberty. Liberty must be also the normal basis of international economic and commercial relations.

Unfortunately, it must be admitted, numerous and considerable complications are at present making their appearance owing to the rate of exchange which is greatly adverse to several countries, owing to the German competition that is feared and to dumping, etc. All these problems in regard to the exchange, dumping and colonial preference form very serious obstacles to the triumph of Free Trade.

It is so with dumping, for example, which is a pretext invoked by Italian Protectionists for raising the customs duties. Since the 1st July last, we have in Italy, as indeed in other

European countries, a new tariff considerably increasing these duties. Certain of them may even be raised only by a government decree. But that is not all: we even have a tariff that has not been approved by Parliament.

This shows that, when Protectionists set to work, they forget a fundamental article of the Constitution that governs our country. They have succeeded in handing over to the caprice of the government the fixing of the customs duties. This is the most dangerous and absurd system imaginable, since it confers on the Government powers that are attributes of Parliament.

Dumping is merely a pretext. It is true that Italian industry has suffered from dumping owing to the policy followed by Germany. But if we attentively examine this question, if we study it thoroughly, we shall find that dumping is not a cause of harm.

When Mr. CHAMBERLAIN raised the question of tariff reform in England, the English press was pointing out dumping from Germany and the United States. But it was a special case: American watches e.g. and a few other foreign products were competing with English watches and products.

But those are special cases. Dumping can only be carried on by certain industries within certain limits and during certain periods of time.

I insist on this point because Protectionists will make use of this dumping system, which is a form of competition, in every country in the world; I do not say it is always a fair competition, for dumping may also have a political aim. Dumping can only be an exception, only a means which necessarily means a loss, even for the country that has recourse to this economic weapon.

Colonial Preference is a revival of differential duties; it is a system that we must condemn because it would involve, as Baron d'AULNIS has said, insurmountable complications and because it would be necessary to set up special duties for each country. This system would bring about a trade war between the various nations, a war that would involve inevitable losses.

On the other hand it would greatly encourage smuggling as is shown by the history of the English "Old Colonial System" in the XVII and XVIII centuries.

All these expedients, all these schemes for colonial preference, resolve themselves into a tariff war, a covert war, because, in order to obtain advantages in certain conditions, the other countries will increase the customs duties for the purpose of obtaining concessions. If, for instance, colonial preference was obtained between England and its Colonies, Italy would probably endeavour to get concessions from the British Colonies by means of increasing or decreasing, as the case might be, its customs tariffs. In Italy a very Protectionist general tariff is unfortunately necessary in order to obtain concessions from other countries, and really it has been approved with the hope of then obtaining reductions in the foreign tariffs by means of commercial treaties. In the last resort a general tariff is an arm of warfare.

In conclusion I think that the Congress should severely condemn all these expedients of Colonial Preference, Differential Tariffs and Dumping, and proclaim that if, in certain cases and in certain countries, it is necessary to have recourse to them owing to a partial and transitory industrial crisis, such an exception cannot justify the adoption of a Protectionist policy. Why? Because the difficulties that may arise under the system of trade freedom are compensated for by the advantages gained by the Free Trade policy, especially as regards combating the high cost of living, an important phenomenon which deserves all our attention.

If we succeed in proving that Free Trade can lead to a reduction in prices, we shall have public opinion on our side. Our cause will be won if we can show that Free Trade does not mean the complete abolition of customs duties existing to-day. Such an abolition would be the ideal, but it is not to be achieved at the present moment in the face of the financial difficulties of the various countries. It must moreover be added

that, unfortunately, public opinion is not sufficiently enlightened on the question.

I will conclude by repeating what I said at the beginning: we must reconstruct on the basis of freedom, we must be exact and explicit in our statements, without exaggeration but also without any fear of being condemned. The system of colonial preference, which has partisans everywhere, will then lose its power. (*Applause*).

Mr. A. B. VAN DER VIES: I come altogether unprepared to give a reply, because I did not know I should be allowed to make one. All that I wanted to say is in my paper. I would in passing again draw attention to the fact that there is a difference between the French and English versions, the English being the correct one. Now, I have spoken to Professor STUART privately about the word "dumping". He said I was wrong, but if you ever read the English papers you will see that dumping means what I have said. Mr. STUART says: "No, it is not so", but I believe the word dumping will remain and will always have the meaning I have given to it. As to the practical side of the question of anti-dumping measures, I know it cannot be settled here. I own that the practical side is very difficult, but I wanted as a theorist simply to put the question forward. I said this question is one that wants very careful study, in spite of the practical difficulties in the way. Some of the speakers have said I have paid more attention to the interests of the producers than to those of the consumers. But if, as I sometimes fear, industry in England and Holland is killed — no, Mr. Chairman, Mr. VAN GIJN does not like that (*laughter*) — if it goes down, there will be a lot of unemployment and people will not have the money to buy the cheap articles which Free Trade would bring. Only yesterday somebody said privately to me: "Well, then, our industry must go away from here. There is no reason for keeping these works going any longer." When we were young

we thought Holland was a land where nothing was manufactured: everything was got from outside. Now it has changed, and there are more industries in Holland than there used to be. My last word is to Mr. VAN GLIN. He has called me a Fair Trader, but I think he will alter his opinion if he will carefully re-read my paper in the English version (*hear, hear*).

Sir GEORGE PAISH: I only wish to say just one or two words in reply to the discussion. I entirely agree with Lord SHEFFIELD as to the difference between Free Trade and the deflation of a currency. Free Trade in itself has nothing whatever to do with putting the currencies of the world right. Not in principle but as a practical matter it has a very great deal to do with it, because as far as I can see the matter the currencies will not become stable until we have Free Trade. It is the attempt of the Government, by protective and other measures against dumping and depreciated currency, that has in a large measure created the state of things now existing, where the goods of the world do not more (*hear hear*). If we adopt a Free Trade policy we shall get currencies stabilized at the earliest moment. But you may have two ways of securing that. You may have no trade at all, and then the currency will be stabilized because there will be no payments. That is what is happening now. To my mind we can get it through Free Trade, with the greatest amount of trade possible. We are going in the contrary direction now. That is why I appeal to statesmen to reconsider what they are doing. They are reducing the trade of the world to practically nothing at all. The trade of the world at the present time has stopped, and one would again urge statesmen to reconsider their policy and open their doors to the goods that can come in, and then they will be able to sell their goods in payment. What we have to do is to accelerate the currents of trade by putting out capital, as we have done in the past in England, wherever it can be employed to advantage,

accelerating custom and exchange, and doing the best for the good of the world (*hear, hear*). It is essential that the productive power of the countries that have suffered most in the war should be revived as soon as possible. Those are the two things, Free Trade opening the doors to the currents of trade, and providing the capital by which all the nations can produce more, so that the currents of trade can move freely. (*Applause*).

Dr. ANT. VAN GIJN: I draw your attention to the paper I read. Mr. VAN DER VIES says that if industry goes down there will be nothing for others besides producers, but I say that the loss for industry must always be less than the gain for the consumers. I do not think the industries will go down, but in any case the gain to the consumers must be more, and I believe every Free Trader is convinced of that.

The *Chairman*: I can only say for myself that whatever may be the merits or demerits of the paper read by Mr. VAN DER VIES it was extremely well calculated to create a good discussion (*hear, hear*). I thank you, my lord and ladies and gentlemen, for the discussion that you have taken part in. If there is nothing more on item 2 we will proceed with item 3 (Colonial Preference). We have three papers, and perhaps the writers will introduce them.

Professor J. C. KIELSTRA read his paper on the subject: "Colonial Preference"¹).

Mr. E. G. BRUNKER submitted to the congress his paper on "The evils of Colonial Preference"²).

¹) See the text of the Paper 209 of this Volume.

²) See the text of the Paper 222 of this Volume.

The *Chairman*: Mr. SCHELLE, who wrote the third paper on this subject, is not present here. As time is short this paper will not be read, but can be discussed ¹⁾).

Lord SHEFFIELD: I promise to be brief, as time is short. I need not discuss the economic pretence: I do not think I need discuss the historic injustice inflicted on newly developed territories by mother countries. Through the whole of the 18th century the basis of all wars was the grabbing of territories for the purpose of interested monopoly. I think there are two countries which now are either the great offenders, or are in danger of being so. The two countries are France and England (*hear, hear, and laughter*). Everyone has read the most interesting memorandum issued by the Carnegie Association for Diffusing Political Knowledge, in which there is an exposure of the injustice done by French colonial policy. France acquired Madagascar fifty years ago, and her policy was so exclusive that trade has hardly grown at all. In the case of Algeria the trouble is caused not so much by French colonial policy as by an extraordinary domestic policy, for in some parts it is the fault of France and in other parts it is not. In West Africa, where a more liberal policy was adopted, there has been a considerable growth in trade. I turn to England. England, of course, was the great sinner in days gone by (*laughter*). If you go to America you will find in Maryland houses that were actually built with bricks imported from England because the colonists were forbidden to make bricks for themselves. The struggle which resulted in the independence of the United States grew out of this very question of tariffs. But with the growth of Free Trade that colonial preference that was the great hindrance to England's economic development gradually disappeared, and if it is revived I would say it will not be owing to a desire for economic aggrandisement

¹⁾ See the text of the Paper 233 of this Volume.

emanating from England, for it began with pressure from the colonies, which offered a preference to England. I was always opposed to it at the time. I said, "I would rather you should lower the tariff to the whole world by 10 per cent than to us by 20 per cent". We have got to deal more freely in trade with everyone (*applause*). The colonies showed that their plan was to make the wall a bit higher for us in England to jump over, but so very high for other people that they could not jump over it at all. However, this colonial preference was taken hold of in England not so much from an economic as from a political point of view. It was what I would call the policy of the swelled head, the idea of the imperialist painting the world red, and all that sort of thing, and — very mistakenly, I think — Mr. CHAMBERLAIN thought that by increasing the economic links between the home country and the dominions he would increase the solidarity of empire. But our only relation with our dominions is that of friendly cooperation. I am not now talking of the legal tie. On paper the United Kingdom is supreme, and it is only as a matter of practice that we concede to the dominions self-government. But to go from the region of law to the region of practice, everyone realizes that these dominions through the world are republics under British protection, and if they think they can stand alone we recognise that they must stand alone and find their own feet, and take the risks of the world. But we believe that as long as the link is purely voluntary it is to their advantage and to ours that they should remain within the empire. But as soon as you substitute material association for moral association you introduce a possibility of strain that may end in disruption. The moment you enter into a bargain between the dominions and the mother country each side is in danger of feeling that it is being defrauded if it does not get all it wanted, of becoming antagonists instead of cooperators. I am sure, in view of the relations of the United Kingdom towards the world, there would be jealousy in many countries. In Germany, which

thought it had come along too late to take its place in the sun, there was a certain jealousy, but undoubtedly this jealousy was diminished by the fact that we had no personal commercial interest in our relations with our dominions, for as far as they were concerned the door was open to the whole world (*applause*). The dominions embarked on a course of Protection, but where we had tropical colonies, crown colonies, protectorates, etc., under our control the door remained open to all, and that decreased the jealousy of the German Empire. We have lately stepped on the slippery slope that leads to economic narrowness and exclusiveness, in regard to our tropical colonies. We have not gone very far yet, and I hope before we go much farther the good sense of the country will withdraw from what we have already done (*hear, hear*). All we have done is to say that where we had already a tariff for revenue we would give a bounty to our colonies by sacrificing part of the duties formerly levied, in favour of colonial produce. We gave a preference to Indian and Ceylon tea. Indian and Ceylon tea have been beating China tea out of the market. But taking it broadly, we have not done much, but we have done what is important — we have conceded a principle (*hear, hear*). I live in hopes that when we get rid of the present accidentally elected Parliament the voice of the country will call us back to sound economics. But in the meantime I think we ought to stand in, if not a white sheet a whitey-brown sheet (*laughter*): we ought to stand before the world doing penance for our departure from principle. The world-wide political danger is greater than the economic danger, and I hope that we shall before long get rid of this foolish, superannuated idea of political preference. May I add that Holland has set the example to the world. When a young man in Oxford I read a novel which set out to expose the wrong conception by Holland of her duties to her East Indian possessions, and to show that she thought of them merely as a means of benefiting the metropolis. You have turned your back upon your

previous record and entered upon a programme of great freedom and liberality. The population of Java, which was not much above twenty millions, is now more than forty millions. I venture to say that the capital invested there has very greatly benefitted, and that indirectly Holland and the rest of the world have profited largely by the prosperity of Java. I have no doubt that, whatever trouble you may have, the spirit of independence and self-reliance has risen there as elsewhere in consequence of this wise policy, that the people have not the sense of financial injustice to rankle in their minds, and that you yourselves recognise that the welfare of the people themselves, and not of those who have the right to administer the colony, should be the guide in all that you do (*applause*).

Miss M. D. PETRE: Lord SHEFFIELD never gets up without making me want to speak too (*laughter*). What I feel about what he has said on this matter is that there are two ways of progressing. I do not think Free Trade is intended at all to abolish the principle of competition, because it is essentially one of the great forces of life. But I think it stands for the right form of competition. There are, say, two schools, one doing better than the other. One way to deal with that, the way of Protection, would be to burn down the successful school so that the other would get the pupils. The way of Free Trade is to put up a still better school, to increase the power and competence of that school until pupils come to it because it is the better one. I feel so much that that is the way of Free Trade: that what we want is not to prevent people from getting things from any place because it stands in our way, but to make our own things as good as possible by honest competition, not by way of suppression. Another point that has come to my mind is that the more every force feels it has got to work out its own destiny the better it will be. The mischief does come from the statesmen, as Sir GEORGE PAISH said, because they are interfering with what is not their bu-

business. Commerce has its own laws, and when statesmen interfere the labourers and workers generally cannot work out their own destiny, because a law foreign to commerce is brought in. We have got to work out our own destiny in freedom. We have got to stand up, in a constitutional sense, against interference with our own natural life and development. Just as statesmen cannot interfere with a great natural law, so they have no right to interfere with commerce: and in reality they cannot interfere with it without pushing it off its right lines. They are bound to bring about disaster by the operation. So much can be done by independent action on the part of both employers and employed, and I feel quite sure this cause of Free Trade will never really get on its feet and advance till labour is as strong for it as is the employer. My thoughts, as I have expressed them, are rather scattered, I am afraid, but they have all been suggested by the different speakers I have had the advantage of hearing today (*hear, hear*).

Miss Dr. E. C. VAN DORP: This colonial preference on tea means putting two pence per lb. on the Dutch tea imported into the London market. The effect as shown clearly in the London market figures is that there is an addition of two pence per lb. in the price of Dutch tea compared with English tea. But the quantity of Dutch tea sold in London, being only used for blending, is very small in comparison with the quantity of English tea, so the matter is of very little importance to growers of Indian and Ceylon teas, and at first sight it might be regarded as a matter of small significance. Yet the ill-feeling that has been created by this preference is considerable. An interesting article appeared recently in the "Algemeen Handelsblad", and articles have appeared in other journals, all against this preferential duty. In the long run the effects will be, first, that the London market for Dutch tea will as a whole become a little smaller, because Dutch teas will be imported less to London, and will go to Berlin and other places instead.

The production of tea generally will also be slightly lower, because it will be possible with the help of this preferential duty to raise the price of English tea slightly. More Dutch tea will be used outside of England, and Dutch tea will gain some advance on the European markets. It is being pointed out here that it is the worst thing the English could have done to prejudice the Dutch, for, as a writer has said, "No one has opened his mouth so largely to the English as the Dutchman has done". It shows how very unfairly these preferential duties work. And I would point out, too, that many of the growers of tea in the Dutch East Indies are English and that the London market wants the Dutch tea for blending purposes. It is an illustration which shows that preferential duties are a sword, that cuts at both sides. And to show the ill-will it creates, I find there is already a certain rumour of the possibility of the Dutch being able to put preferential duties on English cotton goods sent to our colonies (*hear, hear*).

The *Chairman*: Before adjourning the conference I would say I believe all the Dutch present will have listened with much pleasure to what has been said by Lord SHEFFIELD (*hear, hear*). He has spoken about our liberal political policy, which has been followed now for half-a-century, and I believe I can assure him that we Dutchmen have the same opinion as he has, that the growth and prosperity of our colonies is most intimately connected with our policy in the government of the Indies. Miss VAN DORP has said something about rumours, but I feel sure our colonial policy will go on as hitherto (*applause*). Mr. SHAW has asked me to say that if those British members who wish to return by Saturday night's boat by Hook of Holland will let him know, he will arrange to book their passages for them. Now we adjourn the meeting till tomorrow at 10 a.m.

The session was adjourned at eleven-fifty a.m.

THIRD SESSION.

Thursday,

September 15th.

Mr. P. J. C. TETRODE, *presided*.

The Session opened at 10 a.m.

The *President*: We will now take No. 4 on the agenda. I am sorry to say that Professor J. P. A. FRANÇOIS is not able to be here, because he is at the meetings of the League of Nations. We will take up the discussion of his paper: "To what extent might Free Trade remove the causes of friction between the nations?"¹⁾ I regret to say that Mr. G. GALLATI-BLASER, who has sent a paper on the same subject²⁾, is also unable to be present at the meeting. May I ask if anybody would like to address us.

Mr. R. D. HOLT:

Mr. Chairman, ladies and gentlemen,

I wish to say a few words on the paper which has been written by Professor FRANÇOIS. I have read that paper carefully, and in substance I agree with the whole of it. I want to direct my observations to one or two points which it raises. I turn first of all to page 243 in the English translation, where I find this passage in connection with the advantage of

¹⁾ See the text of the Paper p. 239 of this Volume.

²⁾ See the text of the Paper p. 249 of this Volume.

acquiring colonies: "The advantages of possession in war-time are of various kinds; in the first place the population of these territories provides reinforcements for the home contingents."

Now, that is quite true, but it is only true on one condition, and that is that the belligerent who owns these colonies possesses such a control over approach by sea as will enable him to carry on free intercourse with foreign countries. It is obviously quite impossible for any nation in war-time to derive any advantage from colonies unless that nation has also free communication with foreign countries. I can illustrate that from my own experience during the war. Before the United States became a belligerent the British Government was obtaining supplies from the United States which would usually have been brought from Australia and South Africa, merely because the distance was shorter and the difficulties of carriage were much less. What really happened as far as my country was concerned was that supplies were got from countries that offered nearness of access. It was a question of the shortest distance. I want to make that observation because unless some attention is given to the point it may be assumed that a colony is necessarily an element of strength. It is only that on condition that you can also trade with foreign Powers.

The other passage to which I draw attention is on page 241, nearly at the bottom of the page. It reads, "For what more frightful bogey is there at the present time than the prospect of being dependent in war-time on others for the supply of materials needed to resist the enemy?" I know that in my own country that bogey is having a very considerable effect in inducing people to favour Protection. I venture to say it is a bogey, a frightful spectre with no substance in it, and I have prepared a few remarks to read to you to show it is a bogey and a great mistake. I believe every Free Trader will agree that Free Trade is the best means of preventing wars and the causes of wars. I think we are in a position to show that even if Free Trade fails to prevent war it is the best

preparation for war — in any case, Free Trade is the best policy (*applause*).

We Free Traders have steadily maintained that the policy of Free Trade, the policy of abolishing all artificial barriers to trade, powerfully assists the maintenance of peace. It removes the grievance of those persons who find that their efforts to improve their own economic condition by trade are artificially frustrated in the interest of less efficient competitors, and it increases the mutual interdependence of nations which involves greater intercourse and friendship between individual citizens of these nations—influences which tend towards peace and against war.

With this argument I am in great sympathy, but I wish to deal with another aspect of the case and enquire whether, if Free Trade does nothing towards the promotion of peace, and if wars are to continue in the future as in the past, a nation will prepare itself for war most efficiently by a Free Trade policy or a Protectionist policy; and I am urged to consider this aspect of the case because since the war of three years ago there has been a constant assertion by the Protectionists of Great Britain that that country was dangerously unprepared for war by reason of her Free Trade policy.

The conception of a State entirely self-contained and self-sufficient has always had an attraction for some minds. We find this idea prevalent in ancient Greece, where the small States were constantly at war with one another, but glorious as were the achievements of ancient Greece in literature, art, and philosophy, it can hardly be suggested that ancient Greece was particularly successful in its national life, which lasted a comparatively short time before being overwhelmed by military invaders.

But if this conception is considered carefully it simply means that a nation must blockade itself permanently so that a temporary blockade by its enemies may cause no inconvenience. To do this it would be necessary to have a soil, including

mineral deposits, and a climate, such as have never existed anywhere, and the population would have to be limited to the number appropriate to the smallest of the natural resources of the country; thus, no matter how rich the country might be in iron and coal, the population, and therefore the development of iron and coal fields, must be limited by the capacity of the wheat fields.

A country which aspires to be wholly independent of other countries must limit its development and its population: yet the real wealth and strength of the country comes from the people, a fact very prominent during the war, when "man power" was constantly asserted to be the prime condition of victory.

Perhaps the best way of putting my argument before you is by comparing the war experiences of France and Great Britain, one a highly Protectionist and the other a Free Trade country — countries which were allies and geographically close neighbours. Both countries had an equal use of the sea, which in spite of the inconvenience and loss occasioned by the submarine campaign was always available for adequate traffic in necessary things. A large part, probably the largest portion, of industrial France, was in the hands of the enemy and not available. But what does this show? Why, the futility of the expectation that industries established merely by a tariff will serve their country in war-time, for industries established in any country by the assistance of a tariff will be placed in that part of the country which on economic grounds is most favourable to their development, whereas from the point of view of national safety these industries should be in the place least accessible to the enemy. France, therefore, had to import much manufactures in order to make good the deficiency caused by the loss of the industrial region, but she also had to import great quantities of cereals to make good the deficiency in the home crops, which are usually almost sufficient to feed the whole population, and certainly would be with the restriction on consumption imposed during the war.

It would be interesting to know exactly why agricultural production in France fell off at a time when it was increased in Great Britain, but I suggest that this may have been due to the fact that, as a result of Protection impoverishing the country, France had before the war employed much more female labour than Great Britain, and that this very important reserve of strength, unemployed women maintained normally out of the earnings of their men-folk, did not exist in France to the same extent as in Great Britain.

Indeed, it is certain that the failure of the French crops was the cause of the slight but not unendurable shortage of food in Great Britain, for both the grain and the shipping to carry it, which normally supply Great Britain, had to be diverted by Government action to supply French necessities. And French ports constructed for the limited traffic of a highly Protectionist country were very inadequate for the new duties imposed upon them. And observe this — if you produce wheat or any other commodity at home the home population must be employed on the work of production: they are not available for the army; whereas if the commodity comes from abroad, neutrals do this work and can be paid either by foreign investments or by borrowing, thus relieving the belligerent country from the necessity of reducing its fighting forces in order to produce the means of life and implements of warfare.

Moreover, it is only by a large foreign trade in peace-time that any nation can build up the commercial organization and the mercantile marine necessary for large importations in war-time, nor is it quite safe to assume that the neutrals who have been excluded from the market in peace-time will be ready to supply it in war-time to the detriment of their regular customers. It must be expected that the neutrals will sympathise with their regular customers and desire their success and prosperity.

One of the cases constantly cited by Protectionists as an instance of the danger of relying on foreign supplies is the

absence of large dye manufactures in Great Britain, and we should examine this. It is not alleged that dyes are necessary for warfare, and there was no difficulty affecting the conduct of the war due to the scarcity of dye-stuffs, but it is urged that a dye industry is most useful because it can be so readily converted into an instrument for the production of explosives (*laughter*). As a matter of fact, when the British Government during the war took charge of existing dye-works and constructed more, they were used primarily for the production of explosives and not of dyes. Whether or not it is necessary to keep in reserve a power for suddenly producing vast quantities of high explosives is a matter for the Government to decide in view of the general political and military situation, and if it is necessary then proper factories should be kept ready for emergencies in like manner as arsenals and dockyards. This assumed military necessity is no reason for maintaining artificially an otherwise unsuccessful trade, probably on a scale wholly uneconomic, with the result that the users of dyes are in peace-time compelled to take dearer and less efficient dyes than their foreign competitors.

Therefore I conclude that the policy of Free Trade does in fact, judged both by theory and experience, afford a better preparation for war than the devices of Protection, and that no specialization in particular industries can in fact give so much security as the full development of a country on the line of its natural opportunities and the genius of its inhabitants taken in conjunction with a wide foreign trade, resulting in the most extended basis of supply and the most numerous channels of communication. (*Applause*.)

Professor Dr. D. VAN EMBDEN: I can considerably shorten the little speech I intended to make because most of what I wanted to say has been said, and much better than I could say it, by the speaker who preceded me. Yes, I feel obliged to oppose strongly much of what has been said in the paper of

my colleague Dr. FRANÇOIS, because in my opinion he takes his stand firmly on what I must call a Fair Trade base — nay even showing himself a most peculiar kind of Fair Trader, viz. Fair Trade combined with some of a militarist's doctrine. I wonder if it is necessary to combine inevitably Free Trade with military disarmament, or decrease of armament. Perhaps we ought not, albeit that by doing so we are following in the glorious company of RICHARD COBDEN in his fearful struggles with that militarist-patriot, Lord PALMERSTON, over the question of increasing the military Estimates. But what I do not doubt in the least is, that if we plead the necessity of placing ourselves on the base of the industrial and economic armament in order to secure the independence of our nation, then we are in violent opposition to Free Trade. The speaker who preceded me has pointed out in a convincing way how very futile it is, in our times especially, to try to reach economic self-sufficiency. We need only remember that if a people makes itself safe concerning food-stuffs, wheat, etc., the question immediately arises as to whether it is safe as to cotton and pig-iron and petroleum — in short everything that possibly be required during war time. For no nation, not even for the big ones, the self-sufficiency is attainable, with the sole exception perhaps of the people of the United States. This idea of Dr. FRANÇOIS that each nation has a perfect right in its own interest to try to become self-sufficient is not only a mirage but it is most dangerous. Being what the French would call "des chateaux en Espagne", it produces in the same time real and solid fortresses in each country. If Dr. FRANÇOIS says you cannot reasonably expect a nation to disarm economically as long as its neighbours have not done the same, you are taking your stand on a Fair Trade basis, tainted moreover with military reasoning. At least you are that peculiar kind of spurious Free Trader who acknowledges the ideal but keeps it in store for better times, for a milder climate (*hear, hear*). Connected with the former I feel another objection to the paper. My colleague Dr. FRANÇOIS adds to his military and national

arguments; he says: "We have a League of Nations. What one nation must not do for itself, what a nation will refuse through shortsightedness, you can expect collectively from an association, a League of Nations!" But the motive power of the League of Nations can only derive from the solidarity as understood by each nation and most of all on economic matters. In invoking however the League of Nations in this way after denying the Free Trade task on a national basis you are making of the League of Nations a *deus ex machina*, meaning always a powerless deity. No, Mr. Chairman, we should realize that economic self-sufficiency is a phantom, a mirage, a danger, foremost to the desired national safety, that it is the negation no less of Free Trade, than of the League of Nations and we should strongly oppose ourselves to that kind of advocacy of Free Trade (*applause*).

Mr. HARRY BARNES, M. P.:

Mr. Chairman, ladies and gentlemen,

Holland is an island, an island of Free Trade in a sea of Protection. Well, sir, Holland has known how to keep the sea out (*laughter*), and we have every confidence that you will in this country at least be able to keep the sea of Protection from flowing in (*applause*). As an Englishman one feels some pangs to think that at this time that sea is flooding to some extent over the United Kingdom and that in the recent Parliament there has been passed in England an Act of an undoubtedly Protective character (*hear, hear*). But we feel that what we are passing through is a flood which will subside, and that in a short time the United Kingdom will emerge from that flood once more an entirely Free Trade community. For the present, here we are on a kind of Mount Ararat (*laughter*). The ark of Free Trade has found a firm foundation in Amsterdam. Well, we remember that the inhabitants of the ark came to people the whole earth, and we have great faith

that in the future the world will come to be a world of Free Trade, instead of, as it is today, a world given over to Protective measures (*hear, hear*). I think there is no need for pessimism. What we are passing through is the natural outcome of the war. War, particularly modern war, brings into a state of predominance the manufacturers of every country. I may be wrong — if one's experience were confined to Dutch manufacturers I certainly should be wrong —, but it does seem to me that manufacturers do tend to adopt protective measures. That is perhaps only a tendency, and I do not say for a moment, and I dare not say, *all* manufacturers — I dare not say that with Lord SHEFFIELD looking at me (*laughter*) — that all manufacturers are Protectionists, because in England we rely upon the great manufacturers of Lancashire and Yorkshire to assist us in bringing the country back to Free Trade; but there is no doubt that when protective influences are brought to bear upon Government they are brought to bear from the manufacturers. You do not find the bankers, you do not find the shippers, working for Protection, but you do find the manufacturers, and it seems to me that war gives the manufacturer a power, and it was only to be expected that at the conclusion of the war those people who had during the period of the war enjoyed almost if not quite a state of absolute Protection should desire to continue that state of things. Therefore, I do not feel discouraged by what is taking place. War brings into prominence particular interests, and it seems to me that Free Trade depends upon the growing sense of a community of interest. Where you get that sense aroused and developed, there you get Free Trade, and illustrations of that fact can be most clearly shown by reference to countries which, as countries, have adopted Protection, against countries which inside their own areas have adopted Free Trade. The United States, for example, or the German Empire. I think we Free Traders may be optimists from the fact that the war has left the world with a sense of community of

interest which I do not think it possessed before, and it is upon that foundation that Free Trade will be firmly built (*hear, hear*).

Reference has been made to the League of Nations. Something has been said as to the inadvisability of burdening the League of Nations unduly, and I think there is a great deal of force in that. It has many problems to deal with, and perhaps, for the present at least, it may not be able to give the attention to the economic questions linked up with Free Trade that we should like; but I am certain of this, that when it has settled the purely political question and has to turn its attention to economic questions there is only one policy which the League can adopt, and that is the policy of Free Trade (*hear, hear*). Free Trade is a world economic. The sense of community begins in small areas and gradually widens out. The business of the League of Nations is to establish a world politic, and that demands a world economic, and the only world economic is Free Trade.

Well, sir, in looking at the future I think we shall be helped by events. Events must help us. The paramount necessity for some kind of world reconstruction is becoming more and more plain. We have heard much upon this point from Sir GEORGE PAISH at this conference, and it seems to me that if and whenever any scheme of international credit is established that scheme must be accompanied by modifications in the direction of Free Trade between the different parts of the world, and I think we may confidently expect events in their course to help the movement.

But that leaves us still with our great task. We have a great educational task before us. I think we have to learn the lesson that has been pressed upon our minds in other directions, that if you are to get a great national policy or a great international policy, that can only come when the minds of the people of the world have been directed towards it, and that direction can only come from some form or process of education; and

it seems to me that it is our business as Free Traders in all our countries to turn our attention to that process and to enunciate our principles with such clarity of form and such emphasis that they may penetrate into the minds of not only the adult electors but in some way or other may be apprehended by most of the children who are growing up to form the next generation (*hear, hear*). I hope, then, a good deal from the bureau it is decided to form for this conference. That may be expected to be a kind of clearing-house from all countries of those statistics and of that information which are to be brought to the knowledge of all. Free Trade is an international matter. We cannot really illuminate it and bring it forward in the minds of the people in our respective countries unless we are able to place before them the mass of clearly arranged information which we have obtained from other countries in the world, and I do hope that as a result of this Conference this bureau will be firmly established, and established in the only way in which any organisation can be firmly established, and that is on the basis of sufficient financial support to enable it to prepare and circulate the information which we must all possess if the process of education to which I have referred is to be complete.

I thank you, sir, for the opportunity you have given me of addressing this Conference. I should like to conclude by expressing my own personal indebtedness to all my hosts, acknowledging with the greatest gratitude the kindness and hospitality I have received in Amsterdam from you, sir, and other members of this Conference (*applause*).

LORD SHEFFIELD: I would like to say a word or two on the question before us — to what extent would Free Trade keep us clear of international conflicts? I quite agree with some of the speakers who said that the intellectual demonstration of a proposition does not carry us very far in determining the will of the people we address. Intellect and reason are ultimately

the foundation of true opinion, but they are not the immediate forces which form opinion. I think philosophers have said that opinions come from feeling much more than from reason, and feeling may result from unreason as well as from reason, but I think in the long run — it may be a very long run — reason conquers unreason. I remember in PASCAL there are some interesting thoughts. PASCAL is arguing with the sceptic who says "practice the form of belief and gradually you will come to the belief itself". In the world we think that a very corrupt and profligate position (*laughter*), and say with PASCAL, "Abêtissez-vous". I should be sorry for the philosopher who adopted that principle. But at the same time, while I recognise that to us our scheme is based upon reason, we can bring about those unconscious forces which do not appeal to the understanding but determine the forces of nature which shall push others in the direction of Free Trade. When once a country is dependent, as it must be, for the great mass of its necessities upon its association with other countries, what I call these impersonal forces will determine the action of a country quite apart from emotion or excitement.

As an illustration of the inevitable growth of society and cooperation some of you will remember the sketch that is given in PLATO'S Republic of the formation of society. He pictures a group of people associated together and developing a simple but self-sustained existence. One said to him, "You are describing a state of pigs"; but he went on, "Let us now describe our conception", and he goes to international trade and points out that if you go empty-handed you must come back empty-handed, and that the object is to provide the comforts of civilization, and he points out that international trade must be mutual. All the great countries of Europe are becoming producers of finished articles, and they cannot be self-dependent and look with an unfriendly eye upon exports from other countries. But there is a sort of stupid selfishness which seems to think you can make a profit out of your

neighbour but must not allow him to do the same in his dealings with you. It is the shortsightedness of the shopkeeper. The Greeks regarded the shopkeeper as the very type of narrow, stupid prejudice. But what I call the shopkeeping instinct, the instinct of shirking competition, runs too much through the higher branches, the manufacturers. Those who are engaged in commerce, the shipowners and bankers, find this spirit galling to them, for they want to encourage the widest possible trade. I do not say they are more virtuous on that account, but those unconscious forces which, as I say, are the result of Free Trade, press upon them so much that they have a natural bias towards a broad policy (*hear, hear.*). They have not practised the usages of religion to acquire religion (*laughter*), but nevertheless theory has followed upon unconscious practice, which has followed upon the inevitable necessities of their life. I would like to involve every country in the necessity of depending upon its neighbour, in order that these unconscious forces might make them recognise that their neighbour is their friend and not their rival, and we should then build up a spirit and an atmosphere which would tend to do away with war. I will not touch upon the points raised as to the use of Free Trade as leading to efficiency in war. That is another issue. I merely wish to emphasise now the value of Free Trade as creating an unconscious force which makes it less difficult to do without war. (*Applause*).

The discussion on this subject was closed, and the Congress proceeded to deal with the fifth item on the agenda, "The ethical element in Free Trade".

The *President*: I now call upon Mr. BUTZKE.

Mr. BUTZKE submitted to the Congress his paper, "Free Trade and ethics".¹⁾

The *President*: I call upon Professor D. VAN EMBDEN.

¹⁾ See the text of the Paper p. 278 of this Volume.

Professor D. VAN EMBDEN introduced his paper on the subject under discussion.¹⁾

The *President*: I call upon Miss M. D. PETRE.

Miss M. D. PETRE: I have called my very short paper "Free Trade and Direct Action" because I wanted just to strike a note of self-reliance at this Congress. I think sometimes a woman's part is not so much to do things as to make men do them and to make men believe in themselves (*laughter*). They often do not believe in themselves as much as they imagine. And if we can do this as a result of some really active measures it may have more effect than all the ideas. I think there are two forms in direct action, one being the form which means the coercion of society in the interests of the class using these means. That is usually an objectionable, through sometimes an important, weapon. What I mean by direct action in this paper is the insistence on carrying out one's own life and doing what no one else will do for one. That seems to me to be a legitimate use of the term.

And now I will continue to read my paper.²⁾

Mr. PIERSON:

Mr. Chairman, ladies and gentlemen,

In France we say that the light comes from the North. I see that a very tiny light is now breaking through the clouds of Protection, as witness the following extract from one of the great Parisian papers which I have just seen:

Against Whole-hog Protection.

The Union of Silk Manufacturers of Lyons has passed the following resolution:

"This Union in their Meeting of the 8th September, attended

¹⁾ See the text of the Paper p. 265 of this Volume.

²⁾ See the text of the Paper p. 289 of this Volume.

by the Mayor of Lyons, observing that the tendency to excessive Protective tariffs, brought in after the war, brings about the closing of the frontiers to manufactured products and creates a real economic war in succession to the war by arms;

"Demands that as soon as possible a system of regular commercial treaties shall take the place of the arbitrary closing of the frontiers.

"And requests the Representatives of the Rhône Department to bring pressure to bear in this direction on the Government and on Parliament."

I perceive first of all in this resolution the fact that the nations cannot shut themselves up within themselves and that, as Miss VAN DORP said in London in 1920, Protection is nothing but war.

I perceive further that the cure proposed for war is an armistice in the form of a commercial treaty. But a commercial treaty is merely a poultice on a wooden leg, for it will allow war to continue to exist in a latent state. The world, however, longs for peace.

Let me now discuss the subject that has just been under consideration.

My fellow-countrymen will not, I hope, take it amiss if I express myself in a foreign tongue and use the language of diplomacy to express my thoughts; not that my love for my mother tongue has weakened, far from it — absence makes the heart grow fonder — but because I imagine that French will be understood by the majority here. It affords me moreover an opportunity of doing homage to my adopted country, to which I am attached by more than forty years' residence, which has enabled me to appreciate the generousness of its hospitality, apart from other ties that time can never loosen.

When the eminent economist YVES GUYOT, who has honoured me for years past with his friendship, and whose absence and that of his colleagues I regret no less than you do, showed me the list of the subjects to be submitted to this Congress,

I begged him to put on the Agenda: "The Moral Aspect of Free Trade", and I thank the Cobden Club for having consented.

Every great humanitarian cause has a moral aspect. I will go farther and say that, without the moral law, the great causes could never have been born. The struggles for the abolition of slavery, the suppression of white slavery, the alleviation of the misery of war, were initiated by men of high moral standing, fighting under the same banner, viz., love for their fellow-men.

They succeeded in arousing and in awakening the public conscience by basing themselves on the great moral law, a solid ground if ever there was one, and it is on such ground that I should like above all to establish the struggle against Protection. It is indispensable to victory.

We Free Traders have two things to do: enlighten the public conscience as to how Protection sins against the moral law, by appealing to the masses, the consumers and, at the same time, the producers.

Have you ever tried to convince those who profit by Protection of their errors by moral arguments? Try it — I have had experience — and you will be surprised at the result.

Protection means exercising restraint, depriving one's fellow-man in an arbitrary manner of a portion of the produce of his efforts, for the advantage of another and without any compensation. It means enriching one at the expense of the other, but it does not mean increasing, even by one single penny, the wealth of the community.

A great French philosopher wrote in the middle of last century:

"The moral sphere has its laws as well as the physical sphere.

"The idea of law and the idea of liberty are by no means mutually exclusive. Law and fatality are not the same thing.

"The stars obey, and their obedience is a necessity. Man obeys, and his obedience is free. Man can choose. He may triumph under the law, or break himself against the law, but the law prevails; no one violates it in itself."

Now, what does the moral law say? "Do unto others as you would have men do to you"; and further: "If you remain in the law you will know truth, and, through truth, you will attain to liberty."

By submission to the law, which already implies the implicit possession of truth and liberty, man will proceed to clear scientific knowledge of truth and, through it, to the efficacious development of liberty.

"The obstacle", one of my two children, whom the war took from me, wrote to me one day, "consists always merely in the ill-will of man towards man. We do not sufficiently believe in the truth of God's works. Nobody gains at the expense of another."

Gentlemen, the war has given us terrible lessons: it has taught us that the world was going in a wrong direction. We are at the critical turning point; let us take the right path before it is too late.

Mankind and nations are drawing nearer to each other. Tunnels driven through the Alps, floating palaces, aeroplanes cleaving the air, had inaugurated the era of the mutual penetration of the peoples.

And in a moment a change came over it all. Ever greater obstacles seem to rise up between the nations, stop all progress and postpone the hour when the world shall issue from the present chaos.

We shall only escape by free and voluntary submission to the laws that govern us. Friendship and cooperation will only be re-established by a friendly entente among the nations and by the disappearance of all the obstacles between them, of which Protection is not one of the least.

Oh, I am aware that deep abysses have been dug; the task is formidable but sublime. It seems to us beyond our strength, and yet, gentlemen, have courage, persevere. Victory is at the end of the journey.

The hour of deliverance is perhaps nearer than we think. Let us hoist all our sails and inscribe on our banner beside

the noble motto of the Cobden Club, "Do unto all men as you would have them do to you."

The moral argument must be put in the foreground. (*Applause.*)

PROFESSOR RICCARDO DALLA VOLTA: After the very complete exposition of Mr. VAN EMBDEN and the moving arguments of Mr. PIERSON, it may seem superfluous to continue the discussion. I desire, however, to insist once more on the fact that the Free Trade Congress has also occupied itself with the moral side of the question. I do this because the public does not always understand the economic theory of the problem, but can understand the moral aspect.

The world longs for justice and desires the triumph of morality even through social and political conflicts and antagonisms. If we manage to show the public all the breaches in the moral law involved by Protection, we shall the more easily win the victory for liberal principles in international commerce.

Protection is nothing but the exploitation of man by man. A new Proudhon is required to demonstrate the consequences of this exploitation and to insist on the injustice of Protection from the moral point of view. All the Free Trade Committees in Europe and America ought to make it their duty to draw up a list of all the immoral consequences and the disadvantages of Protection. It is useless for me to return to these consequences and disadvantages after Mr. VAN EMBDEN'S very eloquent speech; it will be sufficient if I add that this list should contain all the general and special arguments capable of illuminating the moral side of the question.

I think that public opinion, which remains indifferent to theoretical technical discussions and statistics, would on the contrary be impressed by arguments of a moral nature.

I take the liberty therefore of recommending the Cobden Club and the Free Trade Associations of all countries to issue publications in this direction. Propaganda of this nature would be extremely useful.

All taxes, or almost all, have an immoral character. This is especially true of customs duties which create smuggling. Everybody knows that when a perfectly honest man is in the presence of the custom-house officers, he is easily led to commit acts of which morality cannot approve, and to escape from his fiscal obligations.

Custom duties being the worst taxes, from the moral point of view, we must concentrate our efforts on demonstrating the immoral consequences of Protection, and on enlightening public opinion as to this exploitation of man by man to the consumers' loss, an exploitation which frequently originates in Parliament, thanks to the corruption practised on certain legislators.

Let us show public opinion the entire edifice of immorality derived directly from protection. By proceeding in this manner we shall secure the triumph of our cause. (*Applause.*)

The President:

Ladies and gentlemen,

I propose to close this congress at 12.30. We have yet some communications to make and proposals to submit to you, so I think we have not much time left. If anyone wishes to speak I ask him to remember that there are but a few minutes left. Mr. FABIAN VON KOCH and Mr. BERLIT gave us papers which came in too late to be printed before this discussion, but they will be inserted in the official report of the Congress.¹⁾

Dr. W. DE COCK BUNING: I came down to this meeting with the intention to criticise and to make a proposal. I wanted to criticise this very respectable and learned Congress on what I thought their lack of fighting spirit, because I had not heard any protest against the attitude of those Free Traders who suffered their beautiful Free Trade principles to be

¹⁾ See the text of the papers p. 161 and 260 of this volume.

dominated by nationalism, or the nationalism of their political parties. I wanted also to make a proposal, and that was to form an organization, a kind of propaganda committee which could make good use of the rich material brought together by these Congresses. But to my great pleasure I have heard that the leaders of this Congress already intend to propose a resolution to this meeting with this purpose, that is, to form a kind of bureau, a propaganda committee, an international committee, to give moral support to the real Free Traders in the different countries. I hope that this meeting will decide to form that committee as quickly as possible, so that very soon we shall hear in the different countries the war-cry of the real Free Traders, "Down with the duties. The open door for all the nations" (*applause*).

LORD SHEFFIELD: Last year at the meeting of the Free Trade Congress committee it was felt desirable that there should be some sort of permanent organization to act in the interests of Free Trade, of an international character. This matter was referred to this Congress, and the Congress appointed a Committee representative of the Free Traders of all the nations taking part in these meetings. The Committee submit the following resolution:

"That there shall be a permanent committee, consisting of representatives of the Cobden Club and other British Free Trade Associations, together with the representatives of the Free Trade organizations of other countries. The Chairman, treasurer, and secretary of the Cobden Club shall act for the present as the officers of this Committee, which shall arrange for future international Congresses and be authorised as an international body to submit resolutions to the League of Nations and to other organizations and authorities for the development of friendly economic relations."

I am happy to say that this recommendation was made with

the unanimous consent of all the representatives of all the nations present at this Congress. We have no wish — I am now speaking not as the Chairman of this committee but as Chairman of the Cobden Club — we have no wish to assume too prominent or important a position in this matter, but it was felt that for the moment the Cobden Club was the organization which had already taken part in summoning the two previous International Congresses and that therefore, while we hoped to make the permanent committee as international as possible and to take advantage of any representations of the Free Trade cause from other countries, for practical purposes it was well to concentrate the responsibility of this organization on some body having a known position (*hear, hear*). It is not in order to usurp authority that we have taken this important position. I will have a second resolution as to the time and place of future Congresses, but for the present I have pleasure in submitting this resolution to the Congress. (*Applause*).

Dr. ANT. VAN GIJN: As the Chairman of the Dutch Association for Free Trade I gladly second the proposition made by the Chairman of the Cobden Club in London. Till now the speaking side of the Congresses has been arranged for by the Cobden Club, and only the outing side by the local committee. The Cobden Club has given us the opportunity that we wished for — the opportunity for others to take their share in the responsibility for making arrangements for the Congresses (*hear, hear*).

The resolution was carried by acclamation.

Lord SHEFFIELD: The second resolution is as follows:

“The Committee suggests that the time and place of the next congress shall be fixed by the body created by the preceding resolution”.

It is thought that in the present changeable situation of things and with the difficulties of getting to work it would

be better not to fix a time and place today but to leave it to the discretion of the Committee (*hear, hear.*)

Dr. VAN GIJN: I second this, thinking it the best we can do at this moment.

The resolution was unanimously adopted.

Dr. P. J. PRINSEN GEERLIGS, *Secretary of the Congress*: As you have seen from the programme, this afternoon there will be a boat trip on the River Amstel to show the landscape of this country, but for those who are not so fond of aquatic entertainment there will be an opportunity to visit the National Picture Gallery under the kind conduct of the director, Jonkheer VAN RIEMSDIJK. Those who wish to visit the gallery are asked to write their names in the list I will now circulate. Members are asked to present themselves at 2.30 at the principal entrance at on the front side. As to tomorrow's trip, the special train leaves Amsterdam at 10.10 a.m. First you will have to change the ticket in the book for an ordinary railway ticket, and I therefore invite all of you to pass through the office before leaving the Conference, otherwise you might find no place in the train, for which I would be sorry.

Sir GEORGE PAISH: Before we separate I think we all of us desire to express our very great thanks to the Dutch Committee, the people of Amsterdam, and the Press, for the extraordinary courtesy and kindness they have all shown to us during our stay here (*applause*). Speaking personally, I should like to say I myself have enjoyed coming to Amsterdam very much indeed. I had often looked forward to coming to Holland and seeing the Dutch people, because we have in England, as you know, very great sympathy with Holland. We do not regard Holland as altogether in the category of some other nations (*cheers*). We regard Holland as a kind of first cousin, and our two nations have very much in common. So I personally have enjoyed coming to Amsterdam in an exceptional degree.

But I think we all have enjoyed coming to Amsterdam. I think the whole world at the present time is looking to Holland. You see, before the war Holland at The Hague did endeavour to create an organisation for the prevention of war. Unfortunately that organisation did not effect its purpose, but the effort was made, and all honour to those who made it (*hear, hear*). If we could only have prevented that great war from coming! (*Cheers.*) And now we look to the future. Can we hope in the future to prevent war? Again we look to Holland. Here Holland is standing as the one Free Trade nation in the world, the friend of all nations, desiring to trade with all nations, holding out the hand to all nations, and as an Englishman I desire to thank Holland for the attitude it is taking (*cheers*). I regret that my own country is not in the same condition, but I believe that before very long England will again be standing by the side of Holland in this matter. I believe that the policy of England in future will be the same policy as that of Holland, a policy of peace and goodwill among the nations. Some of us are trying to introduce this policy now, and I have not any doubt as to the result. English people as a whole at the present time desire a policy of peace, the policy Holland stands for, and I am sure we are going to secure it, and in this Congress we have had the opportunity of meeting not only our friends, not only our old friends who are of the *entente*, the members from France and Belgium, but also our late enemies, whom we now regard as friends (*cheers*), and who I believe will remain our friends during the centuries. We have got to stand together in future to prevent war. We have got to stand together to maintain the Free Trade principle, and I am sure that Germany and Austria, and the other nations that have suffered from this war as they have suffered, will stand for that principle. I personally believe the policy of Germany in future will be a policy of peace, and must be a policy of peace, and it is for that reason that I hold out the hand

of friendship to the German people. Our own policy undoubtedly will be a policy of peace. And so in this happy Congress, in this Congress of Free Trade, a Congress of men and women desiring the promotion of goodwill among nations, we have met after the war with the desire to promote that peace upon which the welfare of humanity must be based, and the principles of cooperation and goodwill. Again I thank the Dutch people, the Dutch members of this Congress, and the Dutch Press in your name for their great hospitality and for the opportunity we have had of expressing our faith in the principles we all hold (*Cheers*).

Dr. DERNBURG :

Ladies and Gentlemen,

It is a great pleasure to me, as one of the German delegates, to support the resolution just proposed by Sir GEORGE PAISH. If I use my own language to do so, it is because of the profound emotion evoked by the words of Sir GEORGE PAISH. This is the first time that Germany, prostrate and conquered, has again been received into the fraternity of nations.

In the name of all my friends, and, I think, in the name of the entire German people, I thank Sir GEORGE PAISH from the bottom of my heart for his generous words. (*Loud applause.*)

The *President* :

Mylord, ladies and gentlemen,

Before bringing this Third International Congress of Free Trade to an official close I feel it my duty to congratulate all the congressists for the most important and interesting debates that have taken place here, and on the kind atmosphere that has surrounded all our meetings and the kindly intercourse there has been between all the nations here gathered together (*Cheers*). I expressly want to thank our distinguished vice-president in the first place, "that old-young man" Lord SHEFFIELD

(*applause*), and my distinguished countryman Mr. BRUINS. We found that a considerable amount of money had to be raised in order to carry out the arrangements for the Congress, and for his help in this matter we have to thank the president of the Finance Committee, Mr. LIEFTINCK. The Chairman, Mr. DU MOSCH, has done much to make the Congress a success, with his courteous manners and his ability always to find a way out of a difficulty. We thank him very heartily. Last not least the two secretaries, Mr. ASSER, and Mr. PRINSEN GEERLIGS. Their courteous manner and their perseverance no one knows better than your President (*hear, hear*). I thank them most heartily. I have also to thank the gentlemen of the Press for the excellent reports that have appeared in the papers, because on their reports depends very largely the success of our Congress. Accept, gentlemen, our best thanks for your cooperation in our labours (*applause*). Ladies and gentlemen, the Congress is now closed.

CONGRESS BANQUET.

A banquet in honour of the members of the Congress was given in the Restaurant of the Royal Society "Natura Artis Magistra" on Thursday, September 15th.

The President of the Congress, Mr. P. J. C. TETRODE, was in the chair.

Speeches given at the Banquet.

On taking his place at the table the Secretary, Dr. H. T. ASSER, addressing the company, said:

Ladies and Gentlemen,

The Organizing Committee has asked me, before we take our seats, to welcome you all to this dinner, which will be the official termination of the stay in Amsterdam of our foreign colleagues, who, we venture to hope, will take with them kindly remembrances of the Congress and the few days spent among us. (*Applause*).

Before sitting down again, I should like to add a few words about the menu.

You are aware that we are in the restaurant of the Zoological Gardens and I should like to assure you that the food that will be served to us has nothing in common with this institution. (*laughter*.)

The Rhine salmon is not one of the fish that you may have admired in the Aquarium, the zebra walking behind the railings of the park did not provide the loin of veal, and the roast partridges are quite different from the flamingos. (*Laughter*).

There is, however, a certain connection with these birds, namely their colour, here represented by the salmon; and the Committee, in whose name I have the honour of speaking at this moment, ventures to hope that the memories you will take away with you will all be rosy in colour. (*Renewed laughter and applause*).

I would take the liberty of asking you again to exchange ideas in continuation of the Congress. You are entirely free to do so. I would only beg you to inform me in case you desire to address us, so that I can tell the Chairman and arrange for a proper division of the speeches. (*Applause*).

The *President*, rising towards the close of the dinner, said:

My lord, ladies and gentlemen,

I rise to give you the toast of her Majesty the Queen. In doing so I have to read to you the following telegram: "By command of her Majesty the Queen I have the honour to send you her thanks and to express the best wishes for the success of your Congress" (*cheers*).

The toast was enthusiastically honoured, the band playing the Netherlands National Anthem.

The *President*: My lord, ladies and gentlemen, I now rise to propose the toast of The Heads of the Governments of all the nations gathered together here.

His Excellency, Mr. J. T. CREMER, *Honorary President*:

Ladies, my lord, and gentlemen,

I wish to say a few words to thank the Cobden Club, the one old English Cobden Club, which has always combined the representatives of Free Trade principles in Europe, for having decided on Amsterdam as the place for this International Congress of Free Trade (*hear, hear*). It has been a great honour

to Amsterdam and to Holland to receive here the members of the Committee and the President of the Cobden Club, and so many distinguished foreigners from other countries; and especially do we appreciate that this year has been chosen for this meeting because it is now just three-quarters of a century since the Corn Laws in England were repealed, and I think on the roll of Free Trade and economic history this repeal of the Corn Laws is a milestone which will never be forgotten. This we owe to RICHARD COBDEN. Sir ROBERT PEEL was the minister who proposed the repeal of those laws, but in the great speech in which he advocated their repeal he said that all the honours of that measure were due to COBDEN. RICHARD COBDEN was still a young man when he reached this influential position. Born in 1804, he inherited the business of his father, he developed himself, and at the age of thirty he was already an important manufacturer, a rich manufacturer, in Manchester. After that time he gave all his time to the advocacy of Free Trade, and through Free Trade peace among nations. Of him could be said what has been said of LE CID, "Je suis jeune, il est vrai, mais aux âmes bien nées la valeur n'attend pas le nombre des années" (*hear, hear*). And that is true: there is a limit of age to begin useful work. The President of the Cobden Club shows that there is no limit of age to stop the work (*applause*). He is an example to all of us, and I am particularly thankful to him. We had a little talk together yesterday, and when he walked up the hill like a young man to enjoy the view there he told me he was eight years older than myself. That is a great comfort to me (*laughter*), for I was getting to consider myself rather too old to contend with the work, but now that I have this example before me I must say I feel new courage to continue the work as he continues it (*hear, hear*). And so it is from the bottom of my heart that I wish the Cobden Club and its president new life, new courage, to proceed with their useful work, and may their work, joined to that of all the other

nations who follow the British example in that respect, be of use to the world, which really requires some strong medicine given to it by strong hands. Ladies and gentlemen, I ask you to drink to the Cobden Club and its president, Lord SHEFFIELD (*applause*).

The toast was drunk with great enthusiasm.

Lord SHEFFIELD, who was cordially received when he rose to reply, said that in some ways they had a representative of the Cobden Club present who was in much closer relation to Cobden than he himself could possibly be, for they had with them that evening RICHARD COBDEN'S son-in-law, Mr. FISHER UNWIN (*cheers*). It was a matter of great regret that COBDEN'S daughter was not also with them, as carrying on what he might call the apostolic succession of the champion of Free Trade (*hear, hear*). It was a great comfort to him to come to the Free Trade city of Amsterdam. He would not say there had never been any lapses: he did not pretend to have studied the history of Holland with sufficient closeness to enable him to give them a perfect certificate of sanctity in this matter (*laughter*). There may have been moments of weakness and hesitation, but he thought everyone would agree that looking at the permanent record of the Dutch people it had been on the side of freedom in commerce and trade. There was no doubt that Holland had been distinguished by its championship of freedom in many other respects. It had been the champion of intellectual freedom as well. He would not say the Dutch had always thoroughly appreciated the intellectual application of spiritual free thought. He was not aware that the Synod of Dordt was a satisfactory record of largeness of theological spirit. Possibly it was made worse by JAMES THE FIRST having sent two of his representatives to it (*laughter*). Nevertheless, he thought that, whether their appreciation of intellectual freedom sprang from their appreciation of commercial freedom and the importance of gathering into those islands and swamps,

as they were then, whatever of force and vigour was to be found in Europe regardless of creed, there could be no doubt about their struggle for political freedom against PHILIP THE SECOND, and for commercial and intellectual freedom. Through GROTIUS they were the founders of modern international law, and in SPINOZA they had the great light of philosophy. Holland, therefore, had a fine record of freedom, and he hoped that, true to the traditions of the past, she would retain her championship of freedom in all respects, intellectual, moral, political, economic, to the advantage and the encouragement of other nations of the world (*hear, hear*). He would like to express the deep gratitude of himself and those for whom he was replying, to those who were entertaining them that night, to those who had given them every facility for seeing and enjoying the attractions of their country, to those who had held to them through good report and evil report; and the hope that the solidarity not only of Holland and his own country but of Holland and all the countries of the world would long continue (*cheers*). He could not leave that banquet of friends of Free Trade without saying a word about the situation of the world, which was so perilous, serious, and difficult that it required all the ability, the sincerity, and the goodwill that could be devoted to it to bring all the nations into a better condition. But in order to accomplish that it would be necessary, as Dr. DERNBURG said that morning, to have peace and goodwill. They had peace of a sort, but not goodwill. Peace was at present only a kind of *status quo* — of “Ground arms”. When nations were not really friendly peace was no more than an armistice (*hear, hear*). But with goodwill they would restore Europe and the world, and in doing that they would restore their own countries as well. There could be no restoration without a restoration of the whole. The sooner the nations discarded the animosities, the jealousies and the arrogance of the past, the better it would be for Europe and the world (*applause*).

Mr. H. RUD. DU MOSCH:

Ladies and Gentlemen,

Allow me to express my great satisfaction at being able to tell you how happy we are to see you in such numbers gathered together in our good and ancient city of Amsterdam. We are all the more delighted as we have had to wait for seven years, seven long years of anxiety and misery for the whole world.

The Third International Free Trade Congress should, indeed, have been held at Amsterdam as early as 1914. An insurmountable obstacle however barred our path; the most terrible and sanguinary war that has ever been known, a war that was an upheaval of the whole world, that broke off the relations between the nations and caused incalculable disasters.

But as we appreciate home all the more after a long absence, as we rejoice at sunshine after long days of gloom, and feel our heart beat more rapidly when we embrace a long-lost friend, so we now doubly feel the happiness allotted to us to-day. It is a great joy to us, although we deeply regret not seeing among us some of the eminent persons whose faithfulness to the principles of Free Trade has always been of such good promise for our great and noble cause.

Allow me therefore to show our great joy in having been able to be present at the international collaboration for resuming interrupted relations and working for the re-establishment of economic freedom among the peoples. That is the goal at which we aim, we Free Traders so deeply convinced of the value of the device of "Liberty, Equality, Fraternity." I would add that we include first and foremost in this fraternity our sisters whose salutary and refining influence is indispensable for the accomplishment of our work of peace.

It is therefore my duty, and a very agreeable one, to assure our charming Ladies' Committee, under the chairmanship of

Mrs. RAHUSEN-HOOFT, of our deep gratitude for their kind assistance.

It is only by the efficient work of everybody, men and women alike, in perfect harmony, and animated by a spirit of lofty justice and generosity, that this sick world will recover.

Let us then keep our enthusiasm intact, let us try to save what seems to be for ever lost, and propagate the principles of Free Trade which can contribute so largely to the pacific development of the economic situation.

With this wish I would ask you, ladies and gentlemen, to raise your glasses and drink to the health of all the Nations represented at this Congress. (*Loud applause.*)

Mr. LIEFTINCK:

Ladies, Excellencies, Gentlemen,

You will not be astonished to hear that the organizers of the Congress consider this materialistic evening sitting as a very essential part of the Congress on the ground of "mens sana in corpore sano", for in order to have a sound body, a not too luxurious meal is a necessity. Its ethical value is also not to be under-estimated, since, in my opinion, the conception of Free Trade can only dwell in a sound brain. It was therefore arranged that a more or less official speech in the German language, as being one of the three official languages of the Congress, should be given to-night, and the honour has fallen to me to address our foreign guests in the language most closely related to our own Dutch, although that does not mean to say that we are most proficient in it.

In the first place I wish to express more especially the feeling of lively satisfaction and pleasure on the part of the organizers and leaders of the Congress — and I venture to say also on the part of a very large number of Dutch business men and economists — that so many prominent foreign representa-

tives of commerce and science, amongst whom there are a considerable number of nations who faced each other as the bitterest enemies, are gathered together here. (*Applause.*) We earnestly hope that when you return home on Saturday or later, you will all be strengthened in the conviction that those who could, but would not come, were very much in the wrong. (*Hear, hear.*) "Que les absents avaient grand tort!" and would have done better to follow the example of those who are ready to shake hands when the fight is over. As sensible people you will doubtless also remember that you came together this evening without any doubts as to whether what you have enjoyed was perhaps obtained from an ex-enemy country, and your Dutch hosts confidently hope that not only the Dutch products such as vegetables and meat which have been placed before you this evening, but also the English sauces, the German Rhine wine, the French champagne in Czecho-Slovakian glasses, the Italian spaghetti, the Swedish Schmörgas, the lobster à l'américaine, will all equally please your palates. (*Applause.*) And if this is the case, it merely proves once more how dependent the various nations are on each other for comforts. (*Laughter and applause.*) How international will our stomachs be when our worthy CHAIRMAN gives the sign to rise! (*Laughter.*)

And even though this banquet is not normal, it is in general not too venturesome to say that not only the prosperity, the state of development and the culture of the nations are reflected in what they enjoy or consume, but also the extent of their trade and their philosophy of life. The more international it is, the more privileged a nation is to be considered, for it proves its energy, the spirit of enterprise animating its commerce, the good use made of international means of communication, and its economic insight.

The idea that a nation should aim at feeding and clothing itself is a shortsighted view due to the war, for apart from the fact that in view of the requirements of modern civilization this is impossible without the cooperation of the whole world,

it would assuredly only lead to the impoverishment of the nation. Trade and prosperity are only developed by efforts made to satisfy mutual needs, by the exchange of commodities and goods, of which the one nation has too many and the other too few, whereby both sides aim at some advantage and profit which can, however, only be achieved if we do not surround ourselves with Chinese walls, nor artificially protect ourselves, but on the contrary are continually spurred on by invigorating competition to improve or cheapen the national products. The easier the exchange of commodities is made in the entire world, the more international our menu can be, and the greater will be the progress of mankind, fortified in the peaceful struggle of the nations on the battlefields of trade. It is true that, as the majority of us are convinced, the struggle can only continue if the free trade idea penetrates everywhere. That is the only way to mutual advantage, and in this spirit I call upon my countrymen, now or later on, to drink a glass of Rhine wine, champagne, whisky, and, if available, Asti Spumanti or Swedish Punch to the prosperity of foreign trade. Je bois à la prospérité du commerce étranger! I propose to drink to the prosperity of all foreign trade! (*Loud applause.*)

Miss M. D. PETRE said that at their conference the proceedings of the first two days had shown that there was a union of mind and thought, but on the last day they felt there was a union of hearts, and to many of them that was more valuable than anything else (*hear, hear*). Human love was the most contagious thing on earth, and one example of unselfish love would attract many followers. They wanted something more than Free Trade: what they wanted was the spirit of human cooperation and human love. The note struck in their third day's proceedings alone made the conference worth while. She had during her visit been deeply touched by the kindness of everybody (*applause*).

Dr. GOTHEIN :

Ladies and Gentlemen,

At the end of to-day's sitting my friend DERNBURG, in words pregnant with emotion, expressed the heart-felt thanks that all of us Germans who have taken part in the Congress feel for the spirit in which it has been conducted, a spirit that was expressed by all the members. Perhaps for the first time in more than seven years, we have to-day had the feeling that we are living in peace, a peace which, at least as regards the representatives who have spoken here, or who were present, is something more than a continuation of the war with other weapons. We are all convinced that Free Trade is the best symbol and the best guarantee of peace, and that, if all countries had inscribed Free Trade on their banner and carried it out in practice, those dreadful misunderstandings would never have arisen which have proved the misfortune of the world (*hear, hear*). We therefore hope that the future is approaching when the doctrine we represent will triumph, now that the Free Traders of so many nations are gathered together to take up the fight against narrow-minded egotism, egotism which wrongly believes that the disadvantage of the one is the advantage of the other, a false doctrine which has involved the world in such catastrophes. We all know of course that it will require long-continued efforts, that the battle for the realization of this ideal will not be easy or short; but the battle is only won if we believe in the ideal for which we are fighting, if we hold the unshakeable faith that we will carry on and win through. And we possess the faith that this battle is being fought for the good of mankind, for the good of the broad masses of the people. The best social policy is barren without a sound trade policy; indeed a sound trade policy and the principle that work should be created for man so that he may satisfy all his needs without

prices being raised excessively but according to the natural price, are a *sine qua non* for a good social policy.

Ladies and Gentlemen, if we are all gathered together here this evening in joyous and grateful mood, and think of the edifying days we have just passed through and of this delightful evening we are now enjoying, we owe it in the first place to the *genius loci* of the city of Amsterdam, which has always been a champion of freedom, the freedom of trade. Such a Congress as this must not be held in a stronghold of Protection, but in a city where the sympathies of the people and the economic leaders are inspired with the same spirit as of old, viz., that the welfare of the people and of the individual can only be promoted by Free Trade, only by real peace.

And if this Congress is a mile-stone on the road to Free Trade and Peace, if it has come to such a successful conclusion and will be a fond memory for all of us, we owe it above all to those who made the arrangements here in Amsterdam, who have welcomed us with such touching and kindly hospitality and whom we shall remember with gratitude.

The success of every Congress rests in the last resort with the organizers, and in this case the organization has been exemplary; the Congress has been conducted in a spirit of kindness and dignity, amiability and firmness. Even though time pressed, the programme was carried out, and I think that we all have the conviction that the conduct of the Congress was in excellent hands.

I therefore would ask those present, without distinction of nationality, to raise their glasses and to drink to the health of the organizers of the Congress, and more especially to toast our Chairman, Mr. TETRODE, who has indefatigably presided over our discussions and brought them to a successful termination. Ladies and Gentlemen, the health of the Chairman of the Congress. (*Loud applause.*)

The toast was drunk with much cheering.

The *Chairman*:

Dr. Gothein, Ladies and Gentlemen,

I thank you, Sir, for the very kind things you have said about me, and I thank you all, Ladies and Gentlemen, for your friendly cooperation which has in so great a degree facilitated the conduct of this Congress.

Continuing in English, the President referred to the hospitality extended to members of the Congress on the preceding afternoon by Mr. and Mrs. CREMER, and to the glimpses the visitors had had on that occasion of the North Sea, which had been the scene of so much that had happened in the early history of the Dutch people. In a few humorous sentences he sketched the gradual development of the Dutch character, which, as regarded its business side, had been summed up in the couplet:

The fault of the Dutch
Is giving too little and asking too much.

(*laughter*). It was a very good thing for Holland that she had built up a flourishing colonial empire in the East Indies, to which her young men went in large numbers for training. With boldness and intelligence and the development of those qualities which made for material success, any one of these young men could in time become a "wise merchant". They had an excellent example in their former Minister for the Colonies and the late Minister at Washington (*applause*), and he wished to propose the health of Mr. CREMER, coupled with the name of his gracious wife (*loud applause*.)

The toast was drunk with much enthusiasm.

Dr. ANT. VAN GIJN said he was chairman of the Dutch Association for Free Trade, and as the funds were not sufficient to defray the expenses of the Congress he went to Amsterdam

for financial assistance. He wished to acknowledge the readiness with which this was given (*hear, hear*). He thanked not only those who had helped with the funds but also the ladies who had been kind enough to assist in entertaining members of the Congress. (*Applause.*)

The company shortly afterwards dispersed.

IN HOW FAR CAN THE ECONOMIC REVIVAL, BOTH NATIONAL AND INTERNATIONAL, BE PROMOTED BY FREE TRADE?

by

C. F. STORK, Esq.

The following points are to be especially considered:

- a. Free Trade and Unemployment;
 - b. Free Trade and Wages;
 - c. Free Trade and Production;
 - d. Free Trade and Purchasing Power.
-

The Committee of the Free Trade Congress has done me the honour of asking me to read a short paper opening the discussion on the first point.

I will in the first place at once make clear that from a manufacturer like myself none should expect scientific argumentation, but only a few remarks based on practical experience, and therefore immediately flashed across my mind the counter-question: "Is it at the present moment possible to say anything on the advantages of free trade that will be able to convert non free traders?" And yet that is indeed our task.

The institutions of both the State and society are so disorganized, the conditions are still to such an extent in confusion, that nobody is able to say along what lines they may or must evolve in the next few years in order to bring about the improvement that the whole world is longing for. Since 1914 prophecy has been a more thankless task than ever. As early as the beginning of the war economists of reputation raised their voices to demonstrate with a multitude of arguments that the application of the free trade idea to the whole of Europe and its colonies would have perhaps prevented the

war. What was more natural than the adoption of these ideas after the war by all nations who desired to cooperate in the reconstruction, than the application of the formerly spurned remedies which would bring prosperity and peace on earth. And yet we appear at the present time to be farther than ever from the realization of this ideal.

The disorganization of the system of taxation and the currency in various countries, and the fall in the rates of exchange were often accompanied by cut-throat competition. The balance of trade of various countries gave a handle to all the opponents of free trade to insist on protective measures. And indeed the latter still partly exist as a consequence of the war. At the same time the hate felt for former enemies is still so intense that foreign products are boycotted even without any legislative measures.

Is there, for so we would amend our question, in these circumstances any good to be expected from propaganda for free trade?

And yet, although we see as yet no solution to the problems which face us, order must some day or other evolve out of the chaos, and it is therefore the duty of everybody who ponders over economic questions to consider the means which can be applied with advantage in order to bring about a final revival. Let us trust in the gradual return of normal ideas and in the beneficial influence of the propaganda for these which will emanate from this Congress also.

The question as put runs "In how far can economic revival, both national and international, be promoted by Free Trade? The influence of Free Trade on Unemployment, Wages, Production and Purchasing Power is to be dealt with".

1. Viewed from an international standpoint the first question is frequently answered in the same manner by the anti-free trader as by the free trader himself. If it were possible in normal circumstances to introduce free trade everywhere in international

trade, and if at the same time we knew how to arrange that trade in the most rational manner possible, unemployment would as a matter of fact not occur though of course the amount of work would vary! Every country would then produce the commodities which could be made in it most advantageously, and would sell such products where they were most needed. In this way it would be certain that the raw materials would be obtained at the spot where they could be most cheaply obtained and conveyed to the spot where they could be most cheaply subjected to manufacturing processes. Both transport and trade would of themselves develop in the only proper direction and no friction of interests would occur. Naturally there might even in this case be temporary disturbances, since even the best conducted commercial and industrial concerns may make mistakes, so that over-production of certain articles in certain districts might arise, but the errors made could be remedied without too violent shocks; everybody might therefore in these circumstances be an adherent of free trade.

We know however that we are dealing here with a fancy, and a convinced free trader, even in less favourable circumstances, must manage to advance other arguments in support of his opinion.

Let us take for this purpose the other extreme, let us also examine the application of free trade in one single country only, and we shall be able to see that also national revival or national introduction of free trade may bring about improvement in employment. Unemployment surely is to be expected in an industry for whose products there is too small a demand. We must here distinguish between industries which entirely or mainly work for the export trade, and those which principally find their market at home.

Import duties can never bring about improvement in the case of the export industries. Import duties on their own products cannot help them, as they do not ameliorate the possibility of exportation; import duties on all other products

cannot act otherwise than adversely, as they have the effect of increasing the costs of raw materials and accessories, leaving aside for the moment the question of the wages. They therefore make the export article dearer, reduce the possibility of exporting.

If we examine the industry working for the home market, we know that a small demand for commodities for home consumption may be a consequence of a general slump. In this case the levying of an import duty will be of no use, as it can have no other result than to make the products in question dearer, and thus make them less saleable. In this case unemployment will be rather increased than decreased by an import duty.

Unemployment owing to the decline in the demand for a certain commodity may however also be a consequence of cheap foreign competition. Here we are dealing with a case in which an import duty may effect an improvement. At the same time it must be thoroughly investigated whether the product to be encumbered with an import duty is not a raw material or an accessory for perhaps much more important industries working for home or foreign consumption. To take an example, will unemployment in England be diminished by levying a high import duty on German dyes, which owing to the rate of exchange are now being imported at low prices? Now in this case it is not a question as to whether it must be considered in the general national or international interest that an industry created under the stress of war should be artificially kept alive, whereas, as is the case in the example we have chosen, the German industry owing to a number of very valid reasons, apart from the present abnormal circumstances, can supply the needs of the world in the cheapest manner.

Apart from this another question is to be put. By means of a high import duty, which will make the dyes in England dearer, unemployment in the English dye industry may perhaps be avoided or decreased. But at the same time a necessary

accessory for the English textile trade is made dearer, and the commodities produced by this industry are therefore increased in price. Can that industry suffer this without fearing competition in the home market against foreign articles, or without diminishing the possibility of exportation on account of the rise in price. The textile industry employs incomparably more hands than the dye industry. The levying of an import duty to prevent unemployment in the latter industry may cause much more unemployment in the textile industry.

This single example could be supplemented by a number of others which would prove that import duties may certainly remove unemployment temporarily in certain branches working for the home market, but in many cases will have the effect of creating unemployment in other ones.

It will also come about in a number of less striking cases that an import duty on foreign commodities will not have the effect expected. Let us suppose that a home industry, which delivers its final products to the consumer, is, owing to the abnormal circumstances abroad, not able to compete with the products which are imported at the low prices at which the foreigner can temporarily supply. Unemployment will arise in this industry. Would it disappear by means of an import duty high enough to restrict the foreign imports? It will often be difficult to answer this in the affirmative. It is indeed very possible, nay probable, in these days of general impoverishment, that the foreign product, owing to its abnormally low price, may still have a certain sale, but that the demand will decrease or disappear if the price rises too much on account of the import duty that was deemed to be effective. The foreigner no longer imports in this case, but the demand for the home product has not increased at all or only to a small extent, and unemployment does not diminish. It will only disappear or diminish if the home industry is able to supply at lower prices and there is no greater stimulus to do so than keen competition. This is true of many commodities

which are not absolutely necessary without their being articles of luxury.

2. What will be the influence of the application of free trade on the level of wages? Although the answer to this question runs to a certain extent parallel to the above, it may nevertheless be useful again to examine the wages question separately, and we shall be able to point to considerable advantages which are due to free trade.

In the first place the manufacturing costs, consisting of the costs of acquiring buildings, tools, accessories, working expenses etc., will be lower in a free trade country. This means that the profits may be higher, or, if the demand for labour is large enough, that higher wages will be offered. There is therefore in this case a direct influence. In the second case free trade signifies for any country cheaper supplies of food-stuffs and articles of prime necessity. Every import duty put on these articles increases the prices. The working classes will therefore, if other things remain equal, be able to live more cheaply, or better on the same wages, in a free trade country than in a protectionist country.

The experience of the Netherlands in this respect before the war was very instructive. The centre of the unprotected Dutch cotton industry borders on an important German textile district where the spinning industry especially developed rapidly owing to protection. The hands employed in this German industry lived in large numbers in Holland, as near as possible to the German frontier. In Germany they earned higher wages than could be paid in Holland and lived more cheaply in Holland than in Germany, therefore cheerfully putting up with their daily journeys and returning every evening to their Dutch homes. If we compare the workman living in Germany and working in German factories with the Dutch workman working in the Dutch factories, the latter was able in spite of lower wages to live at a higher standard. It may be argued that in

the Germany of the present day this no longer occurs, and that free trade now prevails there, but we know that conditions in that country are now so abnormal that no conclusions can be drawn.

The consequence of free trade was that an industry did not arise in an artificial way and that therefore the transition from an agricultural state to an industrial state, which was inevitable during the last century in countries with a rapidly growing population, was not always plain sailing unless the State intervened with protectionist measures, quite apart from the question as to whether the too easy and rapid development, in countries lacking the necessary natural conditions, has had a favourable effect. In any case the industries which have arisen or have developed under free trade will become extraordinarily powerful and hence be able to pay relatively the highest wages.

A striking example in support of this argument is afforded by the growth and prosperity of the Dutch cotton industry which only developed powerfully after it had been compelled, owing to the disappearance of the former protective tariffs for consignments to the Netherlands Indian colonies, to compete in the free markets of the world. This powerful development was accompanied by a regular increase in wages and the consequently great increase in the prosperity of the working classes.

This example can be expanded on a large scale. Nowhere did the prosperity of the working classes increase more than in England after introduction of free trade measures in the middle of last century. Germany's prosperity can also be cited since it in 1876 had recourse to a protectionist policy, but in this case however there are various extraordinary contemporary circumstances and other factors to be mentioned which cooperated in bringing about this phenomenal prosperity. In England on the other hand there were no such reasons for its tremendous development which did not already exist before the abolition of protection.

And moreover large incomes rose sharply in Germany under the protectionist system, whereas wages remained relatively lower than in the corresponding English and Dutch industries. America too can be cited as a country where in spite of excessive protection a tremendous industrial development accompanied a rise in wages such as occurred nowhere else, but it is common knowledge that there were quite different conditions of development at hand in the United States than in any other country, while the main argument for free trade, to which I shall now refer, does not hold good for the time being for this latter country.

3. The influence of free trade on production.

This is the cardinal point. Society calls for production, and for the largest possible production that can be obtained for the lowest possible prices. The world needs goods after the insufficient production of years, but the peoples are so impoverished that they are not able to buy. It scarcely needs further proof to show clearly that under free trade, i. e. where no obstacles are put in the way of trade and traffic, goods can be sold in the cheapest way, and that production therefore under free trade will also be largest under the best conditions.

In this case however we see a collision between the interests of the producers and consumers. More especially the established industries which think they are threatened imagine — and naturally very rightly — that their production will diminish owing to foreign competition. They therefore ask for protection.

This will often not be in the general interests of production itself, but we must here distinguish between large and small countries, and especially between countries which have all their raw materials within their own frontiers, and others into which raw materials and half-manufactures must largely be imported.

Referring again to the example of the United States, we have a land so vast and rich, and at the same time so

entirely able to supply its own needs, that it would even be able to afford the luxury of total isolation.

Precisely the opposite is the case with countries such as the Netherlands and Switzerland which are in every respect dependent on the foreigner. Between these two extremes we have an industrial country such as Great Britain.

I think I can best continue my argument by once again dwelling on the country of medium size and on the small country, i. e. England and Holland, both indeed until the war strongholds of free trade. We can see from the industrial history of these countries how, owing to free trade for their own use and in spite of the introduction of protection into all the surrounding countries, a regular increase in production was possible. What do we see in these countries? That in consequence of the free competition those industries have mainly developed which are able to work for the markets of the world.

By means of its natural resources, coal and iron ore, it is evident that England was able to make an enormous spurt, while the gigantic development of transport on land and water in the first place caused a demand for the products of these industries. In spite of the rapid development of the metal industry in Germany subsequent to 1870 and the competition thus created, England remained a great exporting country for the so-called half-manufactures.

To a certain extent owing to competition, England was certainly a pioneer in all sorts of branches; I will only mention the invention and first introduction of the Bessemer and Siemens Martin steel production.

There are, however much more important consequences to be pointed out. In the steel industry itself England applied herself at first to the production of fine grades of steel, tool steel, knives, needles, etc. in which for a long time it had a monopoly and still holds first place.

Based on the raw material industry, there arose moreover a many-sided engineering industry which for a long time

excelled its powerful competitors as an export industry and is still in the front rank. We only have to remember the manufacture for example of tools for the textile industry and for metal machining and the construction of steam engines, especially of the cheaper grades, for the world's markets. In consequence of free trade which also helped the other great export industries to prosperity, England was able to deliver these machines in large quantities and more cheaply and better than its competitors.

Although the development of the metal industry depended on the manufacturing of raw materials in the country itself, this reason does not hold for the gigantic textile industry. It is in consequence of the famous British inventions in this branch that the United Kingdom was the first to evolve this industrial form, but its great expansion as an export industry is to a high degree due to free trade which compelled the manufacturer always to aim at the cheapest methods of working and at the adoption of the most perfected machinery. In this manner England was able to compete easily with German and other industries which had the support of protection. In spite of all the intelligence and energy applied in Europe and America to this branch of industry, other great textile industries, such as in Russia, Japan, the Netherlands, Belgium, etc., preferred English methods and English machinery to those of her competitors.

It cannot be denied that towards the end of the last century and the beginning of the present, England saw its supremacy in the metal industry successfully challenged and sees itself even excelled by the United States and Germany.

Is this perhaps a consequence of protection in these latter countries?

It would naturally be foolish to deny that in both these countries, which are both the most striking examples of the commercial territories I have mentioned where protection does the least harm, the metal industry has to a certain extent

profited by protection to grow powerful. But the fact that England lagged behind is in the opinion of experts to be ascribed to quite different causes.

Do we not see in this case the reverse of the medal of the too great prosperity of English industry which apparently had nothing to fear? Owing to this, many industrial magnates rested on their laurels and neglected to change, renew and improve in time when renewal was necessary. Has not general and technical education long been neglected in England? Is it not still second to the Continent in this respect? Has not misguided English trade union policy much on its conscience? It is certainly a fact that British industry is technically often not in the vanguard. Not only has she fallen behind in the coal industry, as has so strikingly proved to be the case within the last few months, but the manufacturing methods are antiquated in many of their engineering works. As this industry works for the world's markets and must remain working in order to obtain a large production, protection would not be of any assistance, but an improvement in the technical and factory methods would certainly have such an effect.

It is remarkable in this connection that those British concerns engaged in the metal industry which have come to the top technically and stopped there owing to good leadership have also managed to maintain themselves commercially in the front rank in the markets of the world.

I think I am therefore justified in ascribing the relative standstill in the British metal industry not to free trade but to other causes.

What I have said in this paper on the textile and metal industries is true in similar manner on other great British export industries.

On a smaller scale the example of the Netherlands is no less instructive than that of England.

In this case we are dealing with a country devoted to agriculture and trade, where industry found hardly any of the necessary raw materials within its frontiers.

The Netherlands is not a natural industrial country. The production of coal has only been seriously undertaken within the last twenty years.

Raw materials are found in the country only in the realm of the agricultural industries, viz. the dairy, potato, paper and sugar industries. It is therefore not surprising that these were the first industries to develop and it is remarkable that, with the exception of the sugar industry, they came into being without protection. They even developed into export industries of such importance that the raw materials were in the long run not to be found in sufficient quantity, but were imported from abroad, namely from protected Germany, while the products of these industries were easily able to compete with the German in the open market.

The important cotton and jute industry developed especially, as I have already pointed out, after the disappearance of protection which formerly existed both directly and indirectly. It has become one of the principal export industries, and the manufacturers in this branch are almost without exception convinced supporters of free trade.

This cannot in general be affirmed of the wool manufacturers; a large section of them think that protection, especially in less prosperous times, will be their salvation. But a number of the factories are also working for the foreign market and the heads of these concerns do not as far as I know desire protection and would obtain no advantage from it. Besides the textile industry which receives its raw materials from abroad, the chocolate, cocoa, oil, rice and barley works and the cigar factories, which are almost without exception dependent on foreign raw materials, have especially developed enormously, and it is true for these industries in general that they have reached this high point of prosperity in consequence of free trade which created the conditions necessary for cheap production.

I should like to draw your attention for a moment to the remarkable development of the metal industry which had to

buy all its raw materials and accessories abroad. This industry was inconsiderable previous to 1870, although some long established firms had certain technical importance. In the last quarter of the century they began to develop greatly, partly because, in consequence of German protection, the raw materials, ships and boiler plates, cast iron, etc., were offered more cheaply in the Netherlands than in Germany. An extensive shipbuilding industry arose along the Meuse for Rhine boats which were built in Holland for German account from German materials.

The home market, which owing to the general industrial evolution had become pretty important, was to a great extent conquered, but the metal industry developed rapidly, more especially from the time it started to work for the foreign market. I refer to the construction of dredgers, cranes, machinery for making sugar and oil, etc. in engineering works. Shipbuilding takes a very high place as regards the quantity and the quality of the work delivered.

In consequence of the lack of protection, the Dutch industry was obliged to be many-sided in order to seek out the most advantageous markets and it reaped its advantages from this fact. At the present time in spite of the difficulties with which it has to contend, it is on the point of proceeding to make its raw materials also.

It would not be without serious danger, if a temporary political majority should be found which permitted the Government, under the pressure of the circumstances, to pass protective laws.

4. Free Trade and Purchasing Power.

Is not the old import and export argument illuminating sufficiently this point? The purchasing power of a nation is increased when it is able to dispose to the best possible advantage of the products of its industries or agriculture. As a rule exports will bring in more than selling in the home market. That needs

no proof. Exporting abroad involves more difficulties and demands more knowledge, but on the other hand under free trade, where "dumping" does not occur, better prices are procurable than can be obtained at home. It is therefore in the interests of the purchasing power of a nation to export much and at the highest prices possible in order that the total profits shall be highest. Exports must however in some way or other be counter-balanced by imports; if the imports are encumbered, the exports will be hampered. I consider myself as dispensed from repeating the proof for this statement which has been so often and so excellently given.

Can we cite an example from the present day in support of the correctness of this statement? The central European Powers cannot import owing to their low rates of exchange. And yet they are obliged to export in order in this manner to meet their obligations as to payment. Exports are therefore necessary as a means of payment and, in the present position of the exchanges imports from the majority of other countries are impossible.

The situation in Germany is therefore really as if the most stringent protection had been adopted. Hampering of imports, promotion of exports.

Will it be affirmed that the purchasing power in Germany has been increased by this means? Let us rather examine what is the result of these conditions.

For some time it appeared as if German industry were prospering more than that of other countries. It was forgotten that the country was not yet fulfilling the financial obligations assumed by it, and therefore industry and the rest of the nation were still making profits which should perhaps have been paid into the exchequer. Whereas now in other countries, where the situation is less artificial, things are not, it is true, improving much, but not getting worse, we see Germany on the slope downward. In spite of the wages and salaries which are low in comparison with other countries, and are not sufficient to guarantee even

a poverty-stricken existence, the metal industry, for example, is complaining that it is obliged to sell below cost price. Until a few months ago their foreign prices were considerably higher than those ruling in their home market, but now the foreign prices are also falling because sales are otherwise decreasing too greatly. The conditions of production are becoming more unfavourable every day. Production decreases, the purchasing power is diminishing abroad, deliveries to foreign countries will become more difficult in proportion as foreign industries manage to adapt themselves to the altered circumstances. And this is happening in circumstances which are practically equivalent to protection carried to a very high point.

The unpleasant consequence of German conditions for the industries of other countries is that they have to face very keen competition. It is not surprising that there is a demand in such countries for import duties, even for an embargo on imports. Yet the general situation would not thereby be ameliorated.

If, for instance, the Netherlands desired to defend themselves in this way, the duties would for the time being have to be very high in order to obstruct the imports. We must at the same time take into account the fact that the prices of commodities needed by the country would rise owing to such duties. The purchasing power of the Dutch nation would consequently decrease, and finally the duties or embargoes on imports would impoverish the nation instead of bringing it profit.

To turn to another point; one of the bright sides of the present slump in Holland is at least the fact that owing to conditions in Germany things are cheap. It is disadvantageous for some Dutch industries, but for the whole nation this cheap market is an advantage and it may lower the wages and therefore make cheaper production for the export possible in this country. If Holland now proceeded to levy import duties or increase them, it would increase its difficulties through decreasing the

purchasing power, and also in the second instance its productive power.

If I am not mistaken England is in the same position, and it is following a very wrong policy by now abandoning the path of free trade. It is thought possible to do so temporarily, but history teaches us sufficiently what becomes of such "temporary" measures.

In the above I have endeavoured very briefly to bring out the advantages of free trade as a means of improving the present situation, basing myself on practical experience, and to underline some of the dangers which are to be feared from a still greater expansion of protection. My conclusion is that no matter how numerous may be the difficulties with which all countries have at present to contend, they would not be diminished by further protection. The interests of the human race would certainly be served best by free trade all along the line. This is, alas, not to be expected, and certainly not in the countries which took part in the world war in view of the mentality now prevailing towards their former enemies. People in those countries which to a greater or lesser extent honoured the free trade system before the war must strive with heart and soul for the maintenance or reintroduction of this system. Apart from the general interests of humanity it is, for nations whose industries are principally dependent on exports and for the small countries, a means of attaining renewed prosperity if they remain faithful to free trade.

TO WHAT EXTENT CAN THE ECONOMIC REVIVAL, BOTH NATIONAL AND INTERNATIONAL, BE PROMOTED BY FREE TRADE?

BY

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The answer to the above question may be in itself fairly brief. The evil that requires remedying is the general impoverishment of the world through the war and its consequences. Increased production and decreased consumption are the only efficacious remedies, as indeed it is beginning to be recognized more and more generally, now that the various quack medicines have been given up. Increased production is however hampered by the very fact of impoverishment. We do not mean by this that lack of purchasing power would be an obstacle to production. If only the commodities most needed in an impoverished world are produced, there will be no lack of a demand, i.e. of purchasing power. The impoverishment is however an obstacle to increased production because it is also felt in shortage of proper equipment and of all that stands in the way of processes of production which are cumbrous and ask much time but give a large yield. This handicap to production can only be removed gradually, the world being in a vicious circle in this respect. Free Trade for all nations offers a means of escape, for it is the sine qua non for a division of labour carried out very efficiently. In its days of wealth, the world perhaps could afford — for reasons unconnected with economy — to hamper the distribution of labour for the advantage of a few groups who managed to persuade the others that the interests of their groups coincided with the general interests. At present however the world is too poor to make such mistakes unpunished.

Universal Free Trade can promote economic revival to a

great extent; it will have a favourable effect on production and on unemployment, which in any case only arises — apart from seasonal unemployment — because the product of the workman is no longer of the same value as the workman was accustomed to earn — a gap that can be bridged over as well by making the work of the workman more productive, as by his reducing his demands.

Free Trade will be able to restrict the inevitable fall of the real wages which were too greatly raised during the war, because they will prove to have been raised not too high in proportion as the labour will be more productive.

Free Trade means nothing more than the carrying out of the principle of the division of labour among the various nations. There is no doubt in anybody's mind but that production is increased by the division of labour amongst individuals, so that each applies himself to a certain section of the production of commodities and services for which he is relatively most adapted owing to various circumstances. It is generally recognized that this division of labour must not be confined to small groups of individuals who live in close contact with each other in villages or towns, but must be extended to large territories populated by entire nations numbering many millions. Nay even those people who object to Free trade for all nations admit that this freedom must prevail, i.e. the distribution of labour over as large a territory as possible. Most Protectionists are partisans of enlargement of the territory for which the tariffs they deem necessary apply. The tendency for centuries past, and especially the XIXth. century, has always been continually to extend the territories where all restrictions of trade were to be abolished by means of tariff unions and tariff agreements.

But when it is a question of transforming the entire globe into a free trade territory, or even of making Europe into a zollverein (neglecting fiscal duties which are counterbalanced by similar home taxes) the intelligence of very many people, who are otherwise fairly clear thinkers, fails to grasp that the

advantages far exceed the few objections, and the lack of a broad view of the whole tremendous issue is keenly felt.

As soon as it is no longer a question of individuals, or relatively restricted groups, but of whole nations, everything that was perfectly clear on the small scale — even in the case of territories populated by millions seems suddenly to become quite doubtful and incomprehensible. Is there really anybody who doubts that a person who gets anything for nothing, whether as an absolute gift or as a compensation for loss suffered, profits thereby?

Is there even any doubt in this respect if the person in question receives as a present what he usually produces himself? Merely to put the question is to answer it. There would be no doubt on the point either if a certain town in any one country received a gift from another town, even if the gift consisted of nothing but what was produced in the town thus donated. But if one country receives a large gift from another country, whether as compensation for loss or wrong suffered, immediately very many people, who include indeed some of the cleverest brains, are ready to suspect the gift because it might consist of commodities, which are also produced in the country donated; a thing that is only possible if the citizens of the country receiving the gift prefer these commodities to something else.

The same is true when it is a question, not of gifts, but of supplying commodities at low prices. That also is considered a blessing for the individual and for small groups, or within the mother country even for large groups. But if labour in any country is satisfied for any reason whatever with very small wages, and is satisfied with a very small amount of commodities from another country in exchange for their commodities, there is suddenly great opposition to accepting this advantage. It is suddenly looked upon as a great disadvantage and the other party is considered a sort of enemy because he is willing to supply cheaply. The country whose labour makes

the highest demands in exchange for the products of that country consequently rises most in the esteem of the world!

What are then the causes of these remarkable contrasts? There are many, but we will only discuss three of them in particular. In the battle for Free Trade it seems that no more good can be achieved by elucidating the principle, of the truth of which moreover everybody is convinced, but good may result from examining the causes underlying the fact that what nobody doubts of in the case of a *small* territory, even though it have an area of millions of square miles, suddenly appears *outside certain limits* to become entirely incomprehensible to many people.

We must endeavour to trace the arguments which lead so many astray, admit what is valid in them and try to make clear why they may not draw from them the conclusion that what is clear to everybody on a small scale, does not apply on a larger scale.

The causes which we wish to examine are:

1. The fact that the division of labour itself, which is the object of Free Trade, and even its division among the nations because it promotes greater production, has the drawback that it fixes down everybody to a certain kind of work and makes transition to other work more and more difficult.
2. The fact that people do not understand that advancing the interests of all the groups of a community severally in very many cases is not equivalent to advancing the interests of all collectively.
3. The disproportionate importance attached by everybody to the *monetary* in contrast to the *actual* amount of his income, i. e. what he is able to obtain with his monetary income in the way of commodities and services to supply his needs.

Let us examine the three points. The division of labour has been carried out further and further in the course of time

and especially during the XIXth. century. It has opened up immeasurable possibilities which would never have been dreamed of if, in the main, every human being, or every group, nay every nation had applied itself exclusively to satisfying their own needs. The work of everybody has become more and more highly specialized and hence a production a hundred and a thousandfold greater has become possible.

Meanwhile for every section of work a special and more thorough training has become to an increasing extent necessary, that is either a theoretical training, in which the laws of causality are taught, which labour has to apply, or practical training, in which it is a question of actually doing the things. Frequently a combination of both kinds of training is required and it takes years before the novice can attain the greatest possible result with his work. The consequence is that once the sphere of labour in society has been found in a certain direction, it is not easy to transfer to a quite different kind of work; indeed some are so specialized that they are later on only suitable for work closely related to the kind for which they have been trained.

There is however in society — even in small circles, but all the more the larger the circle is, — a continual action, a continual displacement. New inventions of technical or administrative nature, frequently of apparent insignificance, discoveries of new raw materials, new finds of raw materials and new methods continually bringing about in some branch of production a state of affairs so that the best way hitherto known to supply a certain human need in a certain place is replaced by better methods requiring less labour or less accessories, at the same place or elsewhere (frequently at a greater distance). Those who had adopted the old method or had produced for a very long period under the most favourable conditions, gradually, or indeed suddenly, find themselves obliged to choose between a smaller reward for their labour, which in any case is being done by another with less — or at least with relatively

less — effort, or taking up another kind of work with which they for the time being will not be so well acquainted as with their former work — and they will perhaps never become so — and in which they will therefore perhaps not receive as much reward.

These displacements are an inevitable evil; without them there would be no progress in the world. Some of the progress in technical and administrative methods will no doubt gradually come into the hands of those people who have been long in the branch; a great deal of such progress is however only possible on quite new lines. An engine-driver is not a mail-coach driver trained to highest efficiency; a telegraphist is not a postal messenger who has learnt to fly. In proportion as the division of labour is applied to larger territories, the more numerous these displacements will be, although there will on the other hand be elements in the more extensive territory which will make the shock less violent. Is that then a reason for restricting the division of labour? Not in the least, the advantages accruing therefrom for millions are a hundred times greater than the disadvantages which the displacements inflict on ten thousands.

It is self-evident that those who are hit by such displacements in production, whether as a result of the adoption of a new machine or of better methods, or more favourable circumstances for the same branch of work which have arisen elsewhere, do their very best to avoid being obliged to make the unpleasant choice described above. Everybody *thinks* more or less that as he is working with good results in supplying his fellow creatures' needs, *he has a right* to continue to do so in the way he is used to do. It is, however, evident that opposition to new methods, opposition to new competition by people who can produce something better or with less effort *in a limited circle*, can have no success, or only success for a short time. It is usually only too evident that the collective interest involves that the needs shall be supplied with less effort or

better and more largely with the same effort, and that progress may not be hampered to the disadvantage of the masses and to the advantage of the few. When machines were first introduced enormously simplifying work, and when means of transport were first introduced replacing mail-coaches and drawboats, there was some opposition. But the days when labour rised up against improved machinery have long gone by. And the same is true of competition within a town or country; there is no longer any question of taking the side of those who consider themselves injured if they are obliged to be content with a lower price for their labour, because other people in the same town or in another town or district of the same country are able to make a product more easily and to make it available more cheaply or better.

Those who go to the wall in home competition are at most assisted to work their way up to the same extent as rapidly as possible by means of the new method of production of the same branch, or to create for themselves a new sphere of labour in producing something else by means of a small alteration, in which sphere they are relatively the best and are therefore entrusted with the production by their fellow-men. They are further consoled by the reflection that to be satisfied with a smaller monetary wage does not mean the retrogression that it seems to mean, for, owing to the progress in all domains there is often a large increase in what can be obtained for a certain wage.

But the matter is looked upon in a quite different way when whole groups of workmen of one *nation* see the value of their labour fall relatively in price owing to improvements in production in another nation, so that they are placed before the choice of either receiving smaller wages or of looking for a different kind of work where they run the chance of earning less for the time being. It is true that the same thing applies as when displacement takes place in a small circle, or when the production in any town or district of any country is

supplanted by better work in another town or district. But in the case of nations it requires a broader view of the general lines of society to understand that it is so. The groups which suffer temporary injury become larger and more powerful, their interests fill the public eye to a greater extent than those of great numbers of people; and the communities which profit by the cheaper production become on the other hand *so large* that a general view of them is lost, the interest of each member of the community in a cheaper production of any commodity being frequently so small that it is not seen and it is not understood that the interests of all taken together are gigantic.

The more complicated conditions of exchange, in which various currencies and their mutual values play a part, cause people to imagine that their people will have to be unemployed because other nations are supplying the needs which their own nation formerly supplied.

Although it is generally understood on a small scale that a person who is backward in every respect in production can nevertheless still be useful in production — naturally at a smaller wage — if it is a question of entire nations, they imagine that a nation that is backward in every respect as compared with other nations can have no share in production, and that it will import all its commodities and will even be impoverished by unemployment.

Man has always the tendency to consider most the interests of those with whom he is most in contact and of those who can put their interests before him. If however, the interests of one villager are opposed to those of a thousand inhabitants, both groups can be sufficiently well visualized and there will be no doubt as to whose interests will have to be sacrificed.

If on the other hand the interests of 500,000 people in a certain industry are opposed to those of 50 million inhabitants, the interests of the greater number are too vague for the majority of people; the interests of the 500,000, although

smaller in total than those of the 50 millions, attract more attention and are easier to put down in concrete figures. Representatives of the 500,000 are met with who ardently defend their cause, whereas the 50 millions are an impersonal mass without defenders.

Let us take figures as an example.¹⁾ Let us suppose that the free admission of an article of general use causes a loss of an average of *f* 50.— per head to the 500,000 home producers and a profit to the entire population of 50 millions of *f* 1.— per head on the average). The total loss is 25 million florins, the total profit is 50 millions. It is certainly very human that, if the loss of 25 million florins suffered by a large group is calculated, but the loss of 50 million florins which is suffered by impersonal masses, which have no very large common interests and are also not able to insist on their interests, (because they have no common bond) will not be put forward at all or only vaguely, it is, I repeat, very human that more attention will be paid to the loss suffered by the minority than to the profit of all.

If we read in a Dutch newspaper, for instance, the statement that the fall in the price of clothing will make *twenty thousand* Dutch families unemployed and without food, we believe not only this very exaggerated presentation of the matter (in

¹⁾ We here describe how the matter is looked at *if* the loss of a portion of the nation is much smaller than the profit of the whole nation, and how more attention is *then* paid to the smaller interests of a group which can be surveyed and protests loudly than to the greater interests of all, *whether* the loss of the group will be smaller than the profit of all together being thus entirely neglected. But that it *will* be so because the exclusion of foreign competition hampers the rational distribution of labour is a matter of no doubt, and is indeed not doubted when the matter is played on a smaller stage. What is lost by the man who gets a neighbour able to make his product more cheaply and who must therefore be satisfied with a somewhat smaller reward if he wishes to remain competing, *can never be more* than that which those will gain who obtain a cheaper product, but *will nearly always be much less* because there will be a larger turnover owing to the lower price.

reality only a small proportion of them will be out of work or will have to be satisfied with lower wages, viz. those who were just able to compete at the old prices) but in our sympathy with the clothiers we entirely forget that *one million and a half* Dutch families will greatly profit by the lower prices and that there are at least one million amongst them for whom every florin less spent on clothes is of great importance.

The position of those who endeavour to make the loss that threatens them, appear more important than the profit to the community, is still further strengthened because the members of a community are divided, generally quite wrongly, into producers and consumers. Wrongly, because all the members of the community are always consumers; if a distinction is to be drawn, mankind must be divided into *consumers who also produce* and *consumers who do not produce*, the latter being composed only of those who are too young, too old, or too weak to produce, and a very small group of those who are too lazy.¹⁾

Every consumer-producer has, as far as his own product is concerned, more interest in high than in low prices, because the higher wages that are possible with higher prices bring him more advantage than the higher prices cost him as a customer, especially if he consumes his product but little or not at all. But every producer has an interest in lower prices for everything that he does not produce. That is evident on a small scale; on a large scale it again escapes the comprehension of many people. Many people think that, in order to obtain high prices for their product, they must, by means of

¹⁾ In general the group of non-producing consumers is put too high, because all those who do not make commodities for the market are included in it, as for example, mothers, civil servants, policemen, judges, schoolmasters and soldiers, whose work is in all respects to be compared with that of factory foremen who also have only to attend to the proper progress of the production of goods and to regularity in the production, and are therefore in every respect productive if they do their duty.

protection, advocate high prices for other producers; for what is granted to other groups of producers will not be withheld from their group. Now that is to a certain extent true; but they forget that the inevitable consequence is that they lose as consumers what they gain as producers; yet it is often argued that if the State only advantages all the home producers, the entire nation is also advantaged.

A distinction must be made in this respect: if the State takes measures, to facilitate production for all producers, e. g. by good education and efficient transport, then indeed the argument is valid that the sum of the advantage procured for each group is equal to the total advantage procured for all. But it is quite otherwise if — as is the case with the exclusion of foreign competition — the advantage given to each group involves disadvantage for all other groups, even for the advantaged producers in their capacity as consumers.

A mother who, after dividing among her children the milk available, thinks that the oldest must have a little extra, and for this purpose takes a drop out of the glasses of each of the four other children and who then comes to the conclusion that the second, the third, the fourth, etc. all need a bit extra, and for this purpose continually takes milk out of the glasses of the other four, will finally not have advantaged the children together by five times what she gave extra to each child, but in the best case will have spilt a fair amount of milk to the loss of them all. Each of the children will, if it only could pay attention made, be pleased, but only because it only takes into account what it sees and not what it does not see. The same is the case when the Government in turn helps all the groups of producers to high prices. The producers all think they are supported by the Government to the extent by which the prices are higher (or are prevented from falling) but they forget that they, as consumers, supply part of the support to the other groups.

Owing to the incorrect contradistinction of producer and

consumer, many people imagine that the advantage to the producers is given at the expense of a few idlers — the consumers. But the consumers are producers to the extent of 95 %. Loss alone is suffered from the high prices by those who have a kind of production, (viz. mothers, civil servants and many persons in private employment), whose earnings do not fluctuate to a similar extent with the prices of the products which are advantaged by the exclusion of competition. In the long run these latter will also have to receive more income at the expense of the others, if the prices continue rising. And as the high prices again prevent these people from buying many other commodities, other producers also suffer loss.

There is however pure loss for all together in so far as there is less produced owing to the hampering of the division of labour, (even though part of the advantage gained by the division of labour, is lost owing to the displacements involved which cause some groups to produce less for a time.

We now come to the third misunderstanding that is an obstacle to the right comprehension of the fact that even in the most extensive spheres, the carrying out of the division of labour finally produces more advantage than disadvantage for all the members of the community, viz. the wrong idea that nearly everybody has as regards the actual amount of their income and the manner in which this may be improved. The use of money, i.e. of media of exchange, which enormously facilitate mutual barter, has made most people lose sight of their *real* income.

Money is purchasing power in the most convenient form, the possibility of procuring what one most desires for the satisfaction of one's needs. A large income in money has become everybody's object; in itself this is not wrong, if it is not forgotten that the final aim of all economic life consists in having as large a quantity as possible of commodities and services for the satisfaction of needs. Most people continually forget that this main object is just as well achieved if £2000. —

is earned and a certain quantity of commodities and services which are a first desideratum can be bought with it, as when £1800.— is earned but as much can be bought owing to lower prices. A person's income can increase as well owing to his money income increasing as by his being able to buy more for a certain sum. However simple this truth may be — so simple that one hesitates to put it down on paper — it is nearly always forgotten. Even now when the terrible changes in prices have occurred which the war has to a greater or lesser extent brought about everywhere, even now we see people still clinging' to the ideas of florins, pounds sterling, marks, and francs as if they were something inalterable. We are so accustomed from our childhood to consider the monetary units as inalterable quantities of purchasing power, that even now almost everyone will display greater pleasure at the increase of his income from £10,000.— to £20,000.— than he will display displeasure at the fact that £20,000.— will no longer buy half as much as formerly. And if that is the case in the times we are now going through, how much stronger is it in times of relatively small fluctuations in the purchasing power of money?

This disproportionate interest in the amount of the income expressed in money, as compared with the real income in commodities and services, is a great obstacle to the advance of Free Trade. Everything else remaining the same, free competition will, at least at first, seldom lead to high money incomes, but only to higher *real* incomes. Nevertheless gifts offered in this way are hardly ever received with rejoicing and least of all if for some groups they are accompanied by smaller money wages. Nothing but the fall of money-wages is seen, and people close their eyes to the fact that this, in reality, does not signify a retrogression in prosperity; indeed if the matter is carefully examined it means rather a progress. And neither do the people believe that the money wages will soon recover, because finally the productivity of labour, which regulates wages, has increased in toto.

Higher wages on the other hand are obtained or maintained at least for some time, by means of measures which protect certain groups against the competition of foreigners who produce the same commodity under more favourable conditions. If the Free Trader then points out that the prices of the product become higher for everybody so that the higher wages which are obtained or maintained are of less value, the answer is again: "That does not matter, I do not consume those commodities, or at least not to any extent". People then forget that they do consume the articles produced by others who want similar protection — thus everybody being in the position of the children who receive a drop of milk at each others's expense — and it is overlooked that all those who are not protected must reduce their demand for other commodities so that the labour, employed on them also loses in value.

The conclusion to be drawn is the following:

The truth of the principle on which Free Trade is based, viz. the promotion of the division of labour, so that every human being makes what he can produce relatively with the least effort, is not really denied by anybody, indeed it is fully admitted on a small scale and even within the nation itself. It cannot be denied that the proper and advantageous division of labour where there is life and progress, continually makes displacements necessary which here and there involve loss. But only on a very large scale — and especially when national and jingo arguments are brought to bear — it is possible for those who suffer the loss to make their fellow-men believe that their loss, generally of a temporary nature, and which is represented in a terribly exaggerated form, is a loss for the community because they are part of it, while there is not a single reason why on a large scale the profit of all should not exceed the losses of the few. It is only by spreading better ideas as to what promotes the common good, by demonstrating to satiety that attention must be paid not only to what immediately strikes the eye, but to what is less

evident but of greater importance, inter alia by paying more attention to the real prosperity enjoyed rather than to the money wages, it is only thus, I say, that the Free Trade principle can be advanced; Free Trade which is a *sine qua non*, especially in these days, to bring about a recovery from the tremendous blows that have been struck at general prosperity. Free Trade or Protection mean larger or smaller production in the entire world and that in these days is equivalent to a gradual return of prosperity for all or misery and death for millions.

APPENDIX.

On pages 5 and 7 I said, that every commodity must be made by those who can relatively make it best. It is not superfluous to discuss this in more detail because Free Traders also often are under the false impression that exchange can only take place with profit if of two individuals, or nations, the one produces the one commodity more easily and the other another. This is incorrect and must be contested, because it is used by Protectionists against Free Trade. They reason as follows: Free Trade is beneficial for those who produce many commodities in the easiest way, but those who in every respect are backward in producing as compared with others must not trade with others, for *otherwise* everything will be made *for* them and *nothing by* them, and they will therefore become unemployed.

It is quite wrong to say that we can only exchange when we make at least one commodity best. A man, or a nation, who produces everything with more effort than other men or nations, will be able to exchange with profit, if — as will always be the case — his inferiority is not *as* great in *every* branch of production.

If, of two carpenters, the one (A) can *plane* more wood in a month than the other (B), and can also *saw* more wood than B. they will nevertheless be able to exchange their product with profit, if A. planes three times as quickly and saws

twice as quickly as B. A, by leaving the sawing to B. and only planing, (which he can do thrice as quickly) and then exchanging the products, will have a profit; for by letting B. saw for him for one day he will save a half day's work and be able to plane more than he needs to give B. in exchange, in the way of planed goods, so that the latter also has an advantage in the exchange.

Let us assume that A. planes 300 cubic meters in one month and saws 200 cubic meters, whereas B. only planes and saws 100 cubic meters in one month. If they do not exchange, then their collective product of two months work is 300 cubic meters plus 100 cubic meters = 400 cubic meters, of planed wood, and 200 cubic meters plus 100 cubic meters = 300 cubic meters, of sawn wood. If they divide the work in such a manner that B. does nothing but what he does relatively best, namely „sawing”, whereas A. planes for $1\frac{1}{2}$ months and saws for $1\frac{1}{2}$ months, their collective product will then be 450 cubic meters of planed and 300 cubic meters of sawn wood, that is to say an increased product of 50 cubic meters of sawn wood. By means of a proper arrangement they can both enjoy a part of the gain of production. It is the same with nations.

There are many people to whom the question will occur as to how an individual who can make everything in a less efficient manner can finally compete on the market against those who can make everything more efficiently. The answer is because the price of the commodities is the product of the productive effort (the number of hours of work spent on the job) by the wages per hour. Now the individual who can produce less of everything in one hour will naturally receive less wages per hour. That will be the case both if he exchanges and if he does not. The carpenter who can supply only $\frac{1}{3}$ of the plane work and one half of the saw work, as does carpenter B. in proportion to carpenter A. will naturally receive lower wages than the one who can do both more rapidly.

Probably in the case above B's wages will be only $\frac{2}{5}$ of A's owing to his smaller production. It is evident that then his sawing will cost only $\frac{4}{5}$ of A's, whereas his planing will cost $\frac{6}{5}$ of that of A's, and it is also evident that it will be to the advantage of both to exchange the plane products and the saw products.

Let me show this in more detail by means of figures.

We assumed that A planed 300 cubic meters and sawed 200 cubic meters per month and that B only did 100 cubic meters of each. Let us suppose that A receives £ 150.— in wages and that B, owing to his inferior productivity in all work only receives $\frac{2}{5}$ as much, or £ 60.— per month. A's planing will cost £ 50.— per 100 cubic meters, his sawing would cost £ 75.—. In the case of B, planing will cost £ 60.— and sawing £ 60.— also per 100 cubic meters. B will therefore make sawn wood more cheaply, although he is less productive than A, and A will make planed wood more cheaply in spite of the fact that he gets $2\frac{1}{2}$ times the wages because he produces three times the work per month.

It is just the same with nations. Backward and poorly equipped nations will receive smaller wages and hence will be able to supply some commodities more cheaply than nations which can make them better, namely commodities in the production of which the backward nation is least inefficient in comparison with more favoured nations.

It is therefore quite incorrect to say that a nation makes competition and exchange of goods with other nations more difficult by introducing measures such as, for instance, a very short working day, and that this will cause unemployment unless the nation proceeds to protect its own producers.

Take two carpenters of whom one planes more quickly and the other saws more quickly, each working 10 hours a day. A planes 200 cub. meters per month and saws only 180 cub. meters.

B	"	180	"	"	"	"	"	"	"	200	"	"	"
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By dividing the labour they will together obtain per month

200 cubic meters of sawn and 200 cubic meters of planed wood. And if one cubic meter of worked wood is worth $\text{£}1$.— more than unworked wood, they will both earn $\text{£}200$.— per month in wages.

Assume now that B is prohibited from working more than 8 hours a day, so that he works two hours a day less and produces e. g. one ninth less, i. e. he would only be able to make 178 cubic meters of saw work instead of 200, and only 160 cubic meters of plane work. The consequence will not be that the exchange of the products of labour of A and B must cease. For though it is true that B now is less productive in everything, he is not inferior to A in the same proportion in everything. A now saws 180 cubic meters as against B's 178, but he planes 200 cubic meters as against B's 160. It remains advantageous to both to divide the work and to exchange the product. It is true that B will in future be able to supply less saw work and therefore will receive less plane work in exchange. The exchange would only become impossible if B wished to receive as high wages for his smaller production, and therefore demanded no longer $\text{£}1$.— per cubic meter but $\text{£}1.12\frac{1}{2}$ (i.e. $200:178$). A would then say: if you are going to ask more per cubic meter because you produce less and want to keep the same wages per month, then I shall come off more cheaply by doing both my saw and my plane work. I suffer some loss in any case through your doing less work, but my loss will not be greater than if I did not exchange. If B however does not exchange, he can only earn a wage of $\text{£}169$.— per month (a half month of planing produces $\text{£}80$.— and a half month of sawing produces $\text{£}69$.—, giving a total of $\text{£}169$.— at $\text{£}1$.— per cubic meter). He will therefore do better to continue to exchange at the rate of $\text{£}1$.— per cubic meter so that his wages fall to $\text{£}178$.—. This fall in wages is not the result of the fact that his decreased production is not protected but of the fact that his production decreases and he cannot put the loss ensuing unto A.

It is indeed imaginable that, owing to the reduction of the

hours of labour of B, his production decreases by 20 per cent in the case of sawing, but that the decrease in the case of planing is not worth mentioning.

The proportion will then be:

A per month: planing 200 cub. meters, sawing 180.

B " " " 180 " " " 160.

Although B is inferior in both jobs, he is now more inferior in sawing than in planing; the roles are reversed, and it would be to the advantage of both if A started sawing and B planing. (A change of this kind cannot take place with entire nations without great stagnation and losses. But if the proportion remained permanently thus, change of production would nevertheless take place and be to the advantage of both parties in the long run. In reality it does take place unless prevented by forcible government measures).

It would however be dangerous if, later on, A. were also prohibited from working more than 8 hours, so that the former proportion between the product of the two was revived, even though it should be with a smaller absolute production. In that case a change of production would again be necessary (and for large groups not without much stagnation and loss). And such a double change would have been avoided if the shorter working hours were introduced at the same time on both sides.

On this ground the cooperation of various nations in the matter of social measures which reduce the productivity of labour *may* be useful. But that is the case only, because it may prevent unnecessary displacements of production with all the loss involved ¹⁾; not because the same social measures are

¹⁾ It is therefore obvious that the losses caused by displacement in the production only will be prevented if the same social measures come in force everywhere *at the same time* or nearly at the same time. The treaty of Washington should have had any sense only in the case that the "eight hours day" was brought in force in all countries nearly *on the same date*. Now it is of no use because that treaty cannot prevent that diminishing of the hours leads to less produce i.e. to lower real wages.

needed everywhere in order not to injure nations which are progressive in this respect. Trade between nations with and without restrictions on production is not prevented or hampered by these restrictions of production; this only happens if the nation that considers it must produce less than before, imagines that it can obtain from other countries the same compensation for less exported products, and, if — naturally — it does not succeed in doing so, makes the loss still greater by closing the frontiers and losing the advantages of the logical division of labour.

PROTECTION AND UNEMPLOYMENT

by

J. A. HOBSON, Esq.

It will be universally admitted that Protection finds its strongest practical support in the fear of unemployment, coupled with the belief that a protective tariff is a safeguard and a remedy. In all countries where the working-class vote is a determinant factor in policy, tariff-mongering politicians and their business confederates play upon this fear and this belief. When Mr. CHAMBERLAIN entered on his famous campaign for the destruction of Britain's Free Trade Policy, he soon came to rely upon the menace of trade depression and unemployment as his chief weapon. He represented our great industries as one after another succumbing to the shock of foreign competition. Cotton is going! steel is going! shipbuilding is going! Such was his appeal. Fortunately for the Free Trade case, the facts and figures of our commerce furnished such a crushing refutation of the CHAMBERLAIN appeal as thoroughly to discredit his tariff proposals. Most shrewd and experienced politicians, however, were convinced that had his attack upon Free Trade been launched upon the wave of a real trade depression, such as each successive decade has witnessed, he might have won the electorate and set up a general Protective Tariff.

It is, I think, of great importance that Free Traders should make a more serious attempt than is usual to understand the plausibility and in a sense the actual strength of this appeal to tariffs against unemployment. For the new protection measure, entitled the "Safeguarding of Industries Act", just placed upon our Statute book, though motivated by a number of diverse and conflicting purposes, chiefly counts upon the current wave of trade depression for its popular acceptance.

Free Traders too frequently rely upon the sound general logic of their case to prove that a Tariff cannot increase but must diminish the aggregate volume of employment and of production. Now, regarded from the standpoint of political tactics, this general logic often fails to convince, and it is worth while trying to understand why it fails. In a period of depressed trade the Tariff-monger promises the members of a local industry, whose mills are standing idle, to keep out the foreign goods which have displaced theirs. If he can carry out this promise, he clearly performs a service to this local trade, by enabling it to put to full use its idle capital and labour, and to market the product at a raised price. Allowing for the reduction of demand which follows the raising of prices, the local trade still seems to benefit in volume of trade and employment, while the higher prices can maintain both profits and wages on a higher level than before. The Protectionist goes round to the various industrial centres that are depressed and puts before them this tempting offer. Why should they fail to be convinced? It is no use for the Free Trader to pose as friend of the consumers who are to pay the higher prices; this local trade will charge. For the local producers (only to a trifling extent consumers of the goods they produce) cannot be expected to set the losses of the general consuming public against their own direct and obvious gains. A tariff set up in their exclusive interests evidently does them good.

Now the Free trader has to meet this simple direct appeal to self interest by considerations that are at once more complex and more indirect. He will point out that this local trade cannot expect that a Tariff will address itself exclusively to their interests. A number of other trades will claim the same measure of protection. Some of these other trades will be providing *their* trade with materials, tools and other requisites, for which they will now have to pay higher prices. Moreover, since the final commodities which other protected trades sell will now be dearer, they will get no real advantage

from the higher incomes they themselves receive, owing to the lower purchasing power of these incomes. When all these considerations are duly weighed, it will be found that all and more than all of the direct gain which a tariff seemed to bring the local trade has been nibbled away by the extension of protection to other trades. Such is the quite valid Free Trade argument. Its practical adequacy in Britain has hitherto hinged upon the ability of its advocates to represent Protection as an attack on cheap food. By that means they have given a powerful enough reinforcement to their consumer's case to make it prevail. But there remains a grave danger in a protectionist policy which excludes agriculture from its tariff, conciliating the agricultural interests by subsidies or other than tariff aids. The danger is primarily a psychological one and rests upon the fact that every producer realises his gains as producer i. e. the wages, profits or other income he receives in money, more vividly and constantly than he realises his losses as consumer. Every political financier is, of course, aware of the greater unpopularity of direct than indirect taxation, resting on this same irrational psychology.

But the danger to free trade from trade-depression and unemployment has also a more definitely economic root. The *laissez faire laissez aller* Political Economy, of which Free Trade is an important branch, takes no account of periods of general depression, where most leading industries in most industrial countries, though possessing all the materials and instruments of production, are unable to make full use of them. Misapplication of capital and labour as between trade and trade, due to miscalculation of the markets, or to natural or political mishaps, will account for a certain amount of unemployment at any given time. But, apart from this measure of unavoidable waste, wherever the productive power of capital and labour exists, it ought to be able to produce wealth which would find a sufficient market at a sufficient price. The existence of a surplus of productive

power, not in one trade or another, but in industry as a whole should in the simple logic of this Political Economy be impossible. Whatever can be produced can and will be consumed, because the wants of man are indefinitely expansible, and will keep pace with every improvement in the arts of production!

But business men are everywhere aware that experience does not conform to this smooth theory. The normal increase of productive power in most modern industries appears to exceed the rate at which the output can be profitably marketed. Though there ought to be as much ability and willingness to buy as there is to sell, the rate of effective supply appears normally to tend to exceed the rate of effective demand. This tendency is responsible, on the one hand, for what is termed cut throat competition, and, on the other, for a frequent and prolonged slowing down of the machinery production. War-experience has made it very evident that the quantity of "slack" in our main branches of production was larger than was formerly supposed, since with the diversion of nearly half our effective labour supply to the fighting forces and munitions, we were able to maintain the output of ordinary civilian goods and services at nearly the same level as before.

It is not my purpose here to discuss the causes of this apparent general tendency towards periods of overproduction, congestion, depression and unemployment. I only wish to indicate that Free Trade theory makes no provision for these phenomena and for certain serious implications. The reason why a general trade depression is so dangerous to Free Trade is that under this condition the ordinary simple refutation of the case for a protective tariff in the *immediate* interests, not merely of a particular trade but of a particular nation, will not work. Let us test it by an illustration. At a time of general unemployment in most of the staple industries here and on the Continent a British railway is considering two tenders for the supply of rails, one from Belgium one from Glasgow,

the former being at a slightly lower price. Now the Free Trade judgment is absolute in favour of the Belgian rails, as against the protectionist plea for the employment of the idle capital and labour at Glasgow. The Free trader argues, not only that it is advantageous to the railway to buy the cheaper foreign goods, but that this course will not reduce the total volume of employment in this country. For, he contends, the purchase of the Belgian rails by English money, must, operating through the usual channels of exchange, cause a demand for British export goods which would not otherwise have taken place. There will, he contends, be extra work for otherwise unemployed workers in Northampton, Leicester, Birmingham etc. to make the goods which go out to pay for the Belgian rails. And it is clear that more employment in the export trades of this country will result from buying the Belgian rails. But does this mean that the total volume of employment in this country will be greater? The Protectionist may reply: If the rails are bought from Glasgow instead of Belgium, the same goods which would have gone to Belgium (or their equivalent in other goods) will have to go to Glasgow to pay for the rails made there. The export trade will, indeed, be less than it would have been, but the total trade and employment within this country will be greater, because it will contain the making both of the rails and of the other goods which the Glasgow workers will be able to demand as the result of the employment they receive. It is, of course, the familiar argument which ADAM SMITH adduced under the rather perverse title of "the Two Capitals", urging that there was a *prima facie* case for preferring internal to foreign trade, because both transactions in the process of exchanging goods against goods were kept inside the same political area. This argument will not, I think, hold water under ordinary trade conditions, in which the available productive power of a country may be considered to be fully employed. Under this condition it is evidently better to buy in the cheaper foreign market, for no total increase of

employment will result from preferring the home-made goods. But where there is general unemployment both in this country and abroad, the immediate case for employing otherwise unemployed British capital and labour is far more plausible. "Yes, plausible, perhaps, but not sound," some Free Traders will certainly reply. A very able English exponent of Free Trade, the late Mr. RUSSELL REA, contended that the difference between foreign and internal trade, due to the difference of methods of payment, was such as to invalidate the statement that if the Glasgow rails were bought instead of the Belgian, the same demand for British labour to pay for them would take place. He insisted that the purchase of the Belgian rails stimulated a production of British export goods in payment for which there would be no equivalent if the purchase of the rails were an act of internal trade. Now I am quite unable to admit that the foreign exchange operates in one case and not in the other, alters the essential fact that the purchase of the rails enables and impels the recipients of the price to use their purchasing power to demand the production of other British goods. In the one case, the Belgian employers and workers who, otherwise, on our hypothesis of unemployment, would remain idle, will have a job and must spend the money they receive, (or cause other Belgians to spend a corresponding sum) in a demand for British goods. In the other case, the Glasgow employers and workers, otherwise idle, will have the job and the money, and will spend it in demand for about the same amount of British goods. The fact that the methods of payments are slightly different is irrelevant to the issue. It is curious that it should be necessary to point this out to Free Traders. For the most fundamental principle of Free Trade is that a political barrier has no proper significance at all in the sound economy of trade. For the economic international society, to which both British and Belgians belong, it is clearly advantageous that the rails should be bought in the cheaper market, though it means less unemployment in Belgium and more in

Britain. But it is foolish to shirk the stark and obvious fact that, if a British railway has the option of setting to work unemployed Glasgow steelworkers on the one hand, or Belgian unemployed steelworkers on the other, the immediate effect of taking the former course is to increase the aggregate employment in this country. The Glasgow workers will buy as much other British produce by the money they receive, and buy it as soon, as would the Belgian workers, and this act of purchase will have the same stimulating effect upon other British trades in both cases. This is quite manifest, if omitting the machinery of payment we confine our attention to the substance of the trade in question. However the payment is effected, what the railway really buys the rails with is the carrying services which it performs. This process of exchanging transport against rails involves no doubt some intermediaries. Probably in neither cases, whether the rails are bought in Glasgow or in Belgium, will the actual rail-makers take their payment directly in the transport service of the railway. The railway will sell transport to various British manufacturers and traders who will pay for it in goods sent to Glasgow or Belgium, for consumption by the railworkers in one of these places. However many intermediary processes of sale may take place, the ultimate fact issues that the railway pays for rails in terms of transport, and there is no ground for supposing that the Belgian purchase sets more capital and labour to work at an earlier time than would the Glasgow purchase. The same amount of employment is brought about. The difference is that in the one case part of the employment takes place outside this country, in the other case it does not. Viewing the transaction quite objectively, one may prefer the Belgian purchase, on the ground that, while it makes no appreciable difference in the volume of world employment, it is better for the railway to buy in the cheaper market, and it conduces to the better economy of the world that the cheaper or more efficiently conducted business should get the job.

There is, of course, another consideration present to some of your minds which, for simplicity of argument, I have kept back for separate consideration. If the British railway has to pay appreciably more for Glasgow than for Belgian rails, its running costs and freight rates must be raised. This rise of freight might be so considerable as to cripple trade and so strike back at production and employment in the general industry of the country. Such general damage to employment through railway costs might more than outweigh the increased employment given to Glasgow railmakers. On the other hand, if the price difference between the Belgian and the Glasgow tenders were very small, the net result of preferring Glasgow might be a smaller amount of unemployment in this country and a larger in Belgium.

In other words, given a general depression and unemployment in the industrial world, a Tariff might be used to distribute the aggregate volume of employment for the time-being favourably to the political area which set it up. In the case adduced, a Tariff keeping out Belgian rails might, if it did not raise considerably the price of British rails, cause more employment in this country. This very distasteful judgment is, in reality, only an extension of our earlier admission that, if a special local trade could keep a special pull upon a Tariff, so that its workers gained more as favoured producers than they lost as consumers, their plea for protection had rational validity. On a short perspective, it seems probable that, during a general trade depression, a skilfully wielded Tariff might shift part of the burden of unemployment on to other political areas. I need hardly add that no mortal Tariff would be either skilful or honest enough to keep within the limits of the economy, watching the comparative costs of production in the various countries so closely as to prevent organized industries inside the Tariff area from raising prices so high as to cause more unemployment than it cured.

I spoke just now of a short perspective. As a lasting policy

such a defence of national employment could not succeed. There would emerge two inevitable causes of failure. The first is primarily political. As in the case of protection for infant industries (quite defensible on theoretic lines) the fatal objection is that such infants never grow up, so here the temptation to retain this fiscal remedy for unemployment during normal trade conditions, so as to force disproportionate amounts of capital and labour into certain favoured industries and keep them fully furnished with lucrative orders at the expense of the general body of national trade, would be irresistible. Now the injurious effect of such a policy is obvious. It would offend the first principle of productive economy by forcing into certain avenues of employment capital and labour which could find more productive occupation elsewhere. The total wealth of the community would thus be diminished by spreading the same aggregate of employment in a more wasteful manner. In other words, it is only the recurrent phenomenon of general trade depression which gives specious validity to a tariff as a mitigation of unemployment.

The other fatal flaw in the policy, except on a short range expediency, is economic. It will be admitted, by all Free Traders at any rate, that the broad effect of any tariff, even under the circumstances here described, must be to force capital and labour to be less productively employed upon the average than if left to the undiluted play of free international trade and investment. This means that such action as we contemplated for the exclusion of Belgian rails would cause rails to be made more expensively in Britain by employing capital and labour in that country than by employing these factors of production in Belgium. If this simple case be expanded into the dimensions of a protective policy, designed primarily to keep the maximum of employment in the protected country, it must fail. For capital employed under these conditions will be less productively and less profitably employed than if it went abroad to Belgium or elsewhere where it was

free to utilize cheaper or more efficient labour. The inevitable result of such a protective tariff would be to stimulate the export of new capital from this country, so leaving a reduced supply for the development of our internal industries. The reduced employment for labour thus brought about would stimulate the emigration of workers to countries where the supply of capital and of employment had been made more abundant by the operation of this tariff. The only way of preventing this reduction of her volume of employment in this country would be by preventing or penalising the export of capital, a policy actually proposed by certain persons who favour the imposition of a discriminative tax upon incomes derived from foreign investments. But this attempt to keep capital at home, less productively and less profitably employed would mean a reduction of the average yield of capital, and a consequent, though perhaps not proportionate, diminution of saving for investment. It is important to recognise that an integral and necessary part of a protective policy is this compulsory retention of capital in the protected area, and the consequent reduction of the rate of interest and of the creation of new capital.

Only by putting a sort of ring-fence round a country to stop its capital and labour from flowing abroad in search of more productive uses, as well as to stop foreign goods from entering its frontiers, could protectionism make the appearance of a case for safeguarding employment. Now it is one thing to restrain the export of capital and labour during a brief war emergency, when governmental work ensures full remunerative employment for all of both factors, quite another to erect these restraints into a normal policy, even for dealing with periods of cyclical depression. The conclusion of my argument is this. If it were the sole object of economic statecraft to cause the largest quantity of work to be done within the national area, irrespective of the quantity of wealth produced and the standard of living, a protective policy of

this more rigorous order might, if it were confined to periods of general depression, achieve this result. In other words, it is theoretically possible to keep an artificially inflated amount of employment within a favoured area, were it practically feasible or otherwise desirable. A state, in other words, could make its working population *ascripti glebae*, keeping them employed at home under a lower standard of production and consumption than they would attain under conditions of *laissez faire laissez aller*.

It will be generally admitted that in no modern civilized country could such a drastic policy of restriction be attempted. "Why then", I may be asked, "canvass a merely theoretical possibility which seems to question the complete and simple validity of Free Trade logic?" In answer I must return to my opening paragraph, in which I insist upon the danger to Free Trade from the experience of trade depressions and general unemployment. Protectionists offer a plausible if ultimately illusory remedy. Free Traders offer nothing. They neither explain the recurrence of a phenomenon which is entirely out of keeping with their economic principles, nor do they propose any method of prevention or cure. But the psychology of the mass-mind is such that in distress it prefers a quack suggestion to none. A merely fatalistic acquiescence in the inevitable recurrence of these cyclical depressions, whether attributed to fluctuations of natural fertility or of business confidence, is extremely dangerous. The defence of Free Trade must not be confined to the immediate issue of Tariffs. It must extend to the outworks. And of these outworks the provision against unemployment is of paramount importance, especially in countries where the popular vote has some real influence upon policy. In Britain the protectionist interests can win in a period of trade depression, if they will keep their hands off the people's food and confine themselves to keeping out goods which compete with, undersell and displace home industries.

Unless Free Traders profess some large organic policy by

which industry and trade can be steadied and employment kept constant and full, they will, I contend, best consult the interests of the cause they have at heart by throwing their support into one of the several schemes that are afoot for imposing upon each national trade the obligation of making an adequate provision for the full maintenance of its regular labour during periods when that labour is not wanted. That such an obligation, generally enforced, would tend strongly towards greater regularity of production, there can be no doubt. The demand of humanity that the human factor of production shall not in periods of enforced idleness be treated worse than the plant and machinery which are maintained in good repair when they are not in actual use, is felt to be just and reasonable. But my point here is that some early and courageous constructive reform along these lines is an indispensable condition for defending free trade. Even if such reform involves a certain measure of State action and assistance, as may be the case, Free traders will do well to make some necessary concessions in their traditional association of Free Trade with anti-governmentalism. One need not be a socialist, in any sense of that ambiguous term, to realise that in a condition of industrial life where competition has so largely been displaced by combination, society as a whole must safeguard its vital interests against sectional abuses of power by organised trade interests wielded by capital or labour. Just as under these modern circumstances the doctrine of *caveat emptor* does not suffice to guard the legitimate interests of the consuming public against trusts and rings, just as it is recognised to be intolerable that a private quarrel between the employers and employed in an essential trade should be allowed to hold up the entire industrial life and welfare of a nation without some machinery for making the general will and welfare paramount, so with this issue of unemployment. These cyclical depressions, however caused, enveloping not this or that business or trade, but the whole national and

world industry, carry such broad and general menaces to social order and the foundations of civilised life, that the Governments of the several nations cannot stand aloof. They must perform a part in helping, or even compelling, the several industries to do their share in providing against periods of unemployment which not merely waste industrial resources but wreck the life and future efficiency of whole populations.

An increasing number of convinced Free Traders, I am convinced, perceive the urgent necessity of treating this doctrine, not as a wholly independent and all-sufficing principle of economic life, but as one which must be linked up with a larger organic policy of social progress. And of this organic policy a constructive effort to prevent unemployment or to make an adequate and assured provision for its victims is the most urgent need.

PROTECTION AND UNEMPLOYMENT.

by

YVES GUYOT.

The farmer who only grew just enough corn and vegetables for the use of himself and his family would run the risk of starving when a bad crop occurred. If he only obtained the amount necessary to feed him, he would not be able to get clothes, boots, nor tools.

We can therefore say that every producer, however small a one he may be, needs to sell a portion of his products.

The manufacturer does not produce miles of cotton or linen thread, thousands or millions of square yards of cloth, silk, cotton, thousands of miles of rails or millions of hundredweights of chocolate for his personal use; he *produces for others*.

The first condition of normal economic life is a market.

The more easily the producer can sell his products, the more easily he can obtain other products in exchange.

JEAN BAPTISTE SAY was right when he said, "It is production that opens markets. A finished product offers, as soon as it is finished, a market for other products to the total amount of its value".

"When the producer of a product has finished it, his greatest wish is to sell it, in order that the value of the product shall not lie idle on his hands, but he is no less eager to get rid of the money obtained by the sale, in order that the value of the money shall also not lie idle. Now money cannot be got rid of without buying some product or other. A good crop benefits the dealers in all other products. The thing that benefits the sale of a commodity is the production of another.

The purchase of a product can only be effected by means of the substance with which alone purchases can be made, viz value; this is the law of markets. The products of both parties ensure them their reciprocal markets. Products are exchanged for products”.

J. B. SAY forgets to mention services which are also acts of production. FRÉDÉRIC PASSY used to say, and he was right, “To bring within our reach what was previously not so, is equivalent to creating it for us and consequently to producing it!” This is the part played by trade and transport.

With this addition of indispensable services, we may state that the J. B. SAY’S law of markets is a fact as necessary to economic life as the circulation of blood is to the life of mammals.

The greater the production, the larger the opportunities of exchange.

Businessmen have long since put this law in a concrete form in their saying that “The fortune of a business man is the riches of his customers.”

This saying means that in exchange for the products that he has for sale, his customers have products which themselves ensure supplies, by means of which others can be obtained in exchange.

Abundance of products alone opens markets.

This involves two consequences: The products of the whole world are more abundant and more varied than those of the nations which each only contribute a greater or smaller portion.

If at the frontiers of your nation you erect barriers in the form of customs duties, to which must be added the customs usages which increase the percentage by the loss of time, and the delays and formalities which they require, *you decrease the abundance of the products against which you can exchange your own.*

You will not contest the truth of the adage that “The riches of the merchant are the riches of his customers.”

What do you do when you prevent these customers from putting a portion of these riches at your disposal, at the disposal of your merchants, at the disposal of your farmers, of your manufacturers, of your producers of all kinds? You *decrease the purchasing power by which your fellow-countrymen and you yourself might benefit*. You yourself close more or less tightly the market on whose size the prosperity of your nation depends! Such is the result of the protectionist policy.

But we reserve the home market for ourselves!

That is a fine present that the protectionists make themselves. The French protectionists cut themselves off from the market of the 1600 to 1700 millions of human beings who populate the earth, in order to try to ensure for themselves the market of the 38 to 39 millions of their countrymen!

To claim that this commercial policy is advantageous for them, is to claim that the part is greater than the whole.

But, says *the Colbertist*, that part of the world called France has an incontestable superiority.

The Cobdenist: For certain things, certainly, but not for all; and it is these certain things that the French need to sell. Now by closing their frontiers to the products which foreign buyers can give them in exchange, they drive them away, they send them to their competitors; the measures they adopt, because they think them advantageous, impoverish them. These clever men decrease their markets; they create unemployment.

The Colbertist. But the foreigner would invade our home market and would drive out our farmers and manufacturers. That would mean universal unemployment!

The Cobdenist. Do you think that the foreigners would make you a present of all they brought? You think them very generous.

The Colbertist. No, but they would sell more cheaply than our farmers and manufacturers.

The Cobdenist. Why? Because your farmers and manufacturers want too high profits and their cost price is too high.

The Colbertist. Too high profits? Oh, never!

The Cobdenist. Then the cost prices are too high — but these excessive cost prices are largely due to the customs duties called protective. The French silk and cotton ribbons could not compete on the London market with the mixed German silks and ribbons because they were manufactured from silk which, being intended for spinning, was not dutiable, and because the duty on cottons was 40 marks per 100 kilos, whilst the duty in France on the fine grade cottons supplied by Great Britain amounted to hundreds of francs per 100 kilos. Engineering works were handicapped by the duties on iron and steel. Clothing was handicapped by the duties on all cloths, and boots by the duties on leather.

These duties have a characteristic feature: they hit the manufacturers who employ most labour and the most skilled labour.

According to the census of 1911 the spinners and weavers of both sexes amounted to 810,000; people engaged in the clothing industry accounted for 1,551,000, or 91 % more, almost double the number. There are 87,000 male tanners and tawers; bootmakers amount to 165,000 to whom must be added more than 15000 women (T. 2, 3rd. part., pp. 21 en 83). The iron and steel trades employ 36,558 male workers; smiths, blacksmiths, locksmiths, etc., for whom iron and steel are raw materials, amount to 176,000.

These examples suffice to show that those industries which have most hands and employ the most skilled labour are dependent on other industries which only supply them with the raw materials they need encumbered with the customs duties, which must increase the cost price.

Now the protective duties do not follow the industries beyond the frontiers; there they compete with foreign industries, and the buyers choose between those which, the quality being the same, are sold cheaper.

The increase in the cost price owing to the customs tariffs

therefore restricts or closes markets, and consequently is a *factor in unemployment*. It is also a factor in home unemployment.

By means of the customs tariffs the producers are protected from outside competition. They have given themselves the monopoly of supplying their own countrymen. They have clapped on such duties that the price of their products can greatly exceed the price of similar commodities which might be imported. They therefore sell dear and are satisfied.

They can laugh with impunity at the statement of ADAM SMITH that "in a free market the selling price always tends to approach the cost price". They have taken the necessary precautions. The market is not free. The customs are on the watch, all is for the best, and they explain to the working man that they are protecting labour at home and defending them from unemployment!

And many workmen are ready to believe, and do believe this assertion.

Nevertheless the producer does not produce for a hobby. He produces to sell. He must have buyers. He only has buyers on condition that there are people who can pay for the commodities which he offers. But the high prices resulting from the protective duties decrease everybody's purchasing power, since they force everybody to buy fewer articles with the same number of monetary units.

A buyer has to pay one hundred francs for a pair of boots which cost him 25 francs before the war; with the remaining 75 francs he could have bought others for his wife and children; hence an increase in work. He is obliged to be satisfied with a single pair. With these 75 francs he could have bought underclothing, stockings, books. He has only been able to buy one single article. Hence the high price of this pair of boots decreases the quantity and the variety of his purchases; it is evident that it is a cause of unemployment.

High prices restrict or close the market; cheapness opens

the market and cheapness constitutes the future of the producer.

Cheapness makes possible savings, the replacement of capital, the increase in purchasing power, and hence the extension of the market. High prices restrict it.

The policy of the protectionists is to create a fictitious rise in prices. They accomplish the following result: "High prices increase the supply and decrease the demand.

When the possible buyer finds that the price of a certain article exceeds the amount he has earmarked for his needs or his pleasures, he looks for a substitute for the article which would have suited him, or he does without. No coercion is possible in face of this passive and silent strike. The holding back of the buyer means the *unemployment of the workman*, and the unemployment of the workman becomes in its turn a cause of stoppage of sales, for, losing his means wholly or partly, he has to cut down his buying.

Last year at the London Congress I showed that the obstacle put in the way of the free traffic in commodities among the various nations, resulting in increasing the need of replacing them to a great extent by the exchange of monetary units, was one of the causes of the crisis in the rates of exchange.

Various systems have been invented to attenuate them; MR. TER MEULEN and MR. PERCHIER have proposed to send raw materials, in exchange for which the consigners would receive products. These reversions to barter seem to meet with many difficulties. Free Trade in products would diminish the part played by money. Before the war, in the exchanges between Great Britain and the United States gold was used to less than 5 %. The customs duties, by increasing the buying price resulting from inflation, condemn the countries which are the greatest sufferers to poverty and unemployment, for they cannot obtain raw materials except at prohibitive prices. The producer has only one real and permanent pro-

tector: his customer. When this producer, considering him as his property, tries to exploit him for his benefit, he drives him away or loses him.

Many producers think themselves very clever by feverishly and unscrupulously working for results which are the opposite of those they imagine they were aiming at. Being protectionists, they set up customs duties which raise prices; but the rise in prices spurs them on to increase the supply, whereas it results in decreasing the demand. Through having tried to obtain customers by force, they restrict the number of their voluntary customers.

By closing the frontiers they restrict the quantity of things which can be exchanged for their products; they thus diminish the riches of their possible customers, and they decrease or even themselves abolish the markets they wished to enlarge. They forget that an open door must let people in as well as out.

The protectionists would like to keep on selling and to prevent their countrymen from buying anything whatsoever outside the frontiers; yet all their political cleverness only results in diminished sales, and the protection of home labour to which they appeal has unemployment as its consequence.

This etiology of the evil suffices to point out the remedy. It is what GOURNAY formulated 170 years ago in these words:

"Laissez faire, laissez passer!"

HOW FAR WOULD INTERNATIONAL FREE TRADE TEND TO INCREASE PRODUCTION?

by

F. J. SHAW (Secretary of the Cobden Club).

I think nearly everyone is agreed about the importance of increased production in restoring the prosperity of an impoverished world; possibly it is the only thing about which there is universal agreement. The war has caused a vast destruction of wealth, only a very small part of which is the visible destruction by shells and fire of houses and factories which existed before the war. If we wish to estimate the loss of material wealth during the great conflict, we must allow for a great reduction in the world's herds of cattle and sheep, through the slaughter of breeding stock for food; the decline in fertility of lands, due to the scarcity of manure, natural and artificial, and the lack of labour; and also for an immense waste of material diverted from purposes of peace to the requirements of war.

Insufficient attention has been given to the positive shortage in the supply of raw materials and foodstuffs, as compared to the needs and the pre-war consumption of the world. Naturally and rightly, public attention has been called to the terrible effects where shortage has been most acute, to Central Europe, in particular. The results of the blockade and of Government embargoes, coupled with the breakdown of credit, have brought famine to millions, and have compelled all but the most callous or thoughtless to seek means to restore the ruined countries. We should remember, however, that even if credit were restored and exchanges were normal, there must of necessity be for years to come a grave shortage in the

supply of numberless things, relatively plentiful in 1914. You cannot replenish your stores of wool and leather until you have bred many more oxen and sheep than you have today. That is the work of years, and of years during which beef and mutton will command a high price, tempting impoverished farmers to realise the present value of their stocks rather than to breed for a future market.

Thus, the world finds itself faced with a problem of production. I suppose this is realised in some measure in every country. In England, we have accusations against employers of restriction of output, and against labour of a "ca' canny" policy which, whether justified or not, at least serve to show that people are realising the necessity for a greater output. Many pamphlets and books have been issued on the subject, some excellent in their way, but generally failing to realise that before a manufacturing nation can increase its output at all, the necessary raw materials must exist, and before it can do so profitably there must be adequate purchasing power somewhere to dispose of the product.

Nevertheless, whether the methods proposed be wise or foolish, practically all the policies now being considered by the public as least *aim* at increased world production. The one policy, differing from the rest in having no such aim, is that of Protection. It is true that Protectionists in all lands claim to increase production in their own countries, however little their measures may be calculated to attain that end, but it would hardly be contended, even by a Protectionist, that the restriction of imports could increase home production without equally diminishing that of foreign countries. Yet the problem of production is a world problem, if ever there was one. The war has affected the production of food and raw materials for the nations of the world, much as a great drought affects the water supply of the families in a large town. Manufacturing centres, especially, are all faced with the same difficulty. The speeding up of machinery, the standardising of manufactures,

and the practical knowledge of industrial processes imparted during the war to millions of women must have greatly increased the potential capacity of the world to work up a given stock of materials into manufactured goods, while at the same time the immediate supply of raw material has been greatly reduced and the markets in which the manufactures must be sold have been impoverished.

If this is a correct view of the position, two consequences emerge: the immense importance of a large increase in the production of food and raw materials, and a consequent change in the relative positions of the extractive and the manufacturing industries. The manufacturer may have to face keener competition than ever in making a contract to sell; but even when he has done this, he will have to overcome a yet more serious difficulty in buying his materials at a price that will avoid loss. Raw materials will increase in price, and the difference between the cost of materials and the selling price of manufactures will be much less than before the war. A new scheme of values will be set up, bringing wealth to the countries producing large quantities of food and raw materials, and reacting unfavourably on the manufacturing nations. Assuming that before the war there was an equilibrium between (a) the extractive industries, (b) the power to manufacture, and (c) the world's purchasing power, the new position brought about by the war may be expressed in the following formula:

	Production of Food & Raw Materials.	Manufacturing Power.	Purchasing Power.
Before the War . . .	100	100	100
After the War . . .	75	125	75

We should aim to increase our power of producing food and raw produce, and to expand the world's purchasing power, and to restore the equilibrium as in the following:

Production of Food & Raw Materials	Manufacturing Power	Purchasing Power
125	125	125

Now, any effective measures to attain this end must start from the Free Trader's point of view. It is a world problem, not a merely national one, and it is fundamentally impossible for Protectionists to deal with any question as a world problem. At the close of our interim Conference in London last year, the Cobden Club threw out a challenge to the Protectionists to hold an international conference of their own. Needless to say, the challenge has not been taken up, for such a conference is inconceivable. Protection is the negation of internationalism, and I think of all the sins against humanity, and they are many, with which Protection can be charged, that is the blackest. At home, Protection brings poverty; internationally, it leads straight towards war and the ruin of civilisation.

But if the Protectionists cannot meet in Congress, we can, and we meet now in a country which is the home of Free Trade. We British delegates are in the humiliating and novel position of knowing that there are blots on our country's escutcheon. We make no excuse for this, except that we are determined to remove the stains, and we will do so the more easily, if we are enabled to show that Free Trade in Great Britain is an essential part of a scheme for restoring the prosperity of the world. Can we Free Traders produce such a scheme?

I have shown that if the existing manufacturing power is to be fully employed we must have a large increase in the production of raw materials and of the purchasing power of the peoples of the world. In a state of poverty, however, such as is general in most lands today, and is so terribly acute in Central and Eastern Europe, almost the whole of such purchasing power as exists must, of necessity, be expended in food. One of the great arguments urged for the repeal of the Corn Laws in England was derived from the terrible depressions in trade that followed every bad harvest. Under Protection, the price of bread depended almost entirely on the accidents

of the British climate. Now Britannia looks a grave enough matron, as you see her holding the trident and resting on her shield, on the reverse of a British coin, but not Cleopatra, Delilah, nor any of the famous beguilers of old time could surpass her in the wantonness with which she distributes storm and sunshine, laughter and tears during the fickle summer of her islands. When we had a wet summer, and there were not a few in the days of the Corn Laws, buying of shoes and clothes and household goods almost ceased among the country poor in England — every penny of the poor man's wages was needed for bread. Destitution and unemployment in the Lancashire cotton mills followed as a natural consequence. People bought their clothes when there was a good harvest and bread relatively cheap, in bad years they must have worn them to rags.

What I have said opens up rather a dismal prospect for my own country and, indeed, for Europe generally, as compared with the less developed continents. Probably, it foreshadows a great migratory movement from Europe westwards, and certainly it opens up to the nations of the new world an attractive prospect of increased wealth. It renders, however, a continuance in the protective policy, which they have hitherto pursued, peculiarly mischievous, both to themselves and the world at large. I have never accepted the view that Protection is necessary in a young country to develop its "infant industries". Possibly Protection might force a sickly growth of manufactures for home consumption somewhat earlier than natural development would produce healthy ones under free trade, but it is not impossible to develop such industries without it. Indeed, it must have been done many times over within the area of the United States. A new territory or State in the Union has no Protection against the older and certainly well-established industries of the other States. Yet, wherever there is coal there seems to be no great difficulty in organising manufactures in any part of the great Republic. What the tariff seems to

do is to include the young manufacturing cities of America in the circle of the trusts, which are so grave a problem in that country. Wherever you have natural resources and an energetic people, I am convinced the logical sequence will sooner or later occur — the lands will be tilled, the mines will be worked, the ores will be smelted, ere long capital and skill will be attracted to the spot where materials are cheap, and manufactures such as are suited to the conditions will develop. In the long run, there would be no more difficulty in establishing manufactures in Quebec and Ontario, if Canadians were free to buy from the United States, than there is to-day in any new area within the great Republic itself.

But Protection is a terrible hindrance to the normal and healthy development of a new country. Under normal conditions, the first need of such a country is a good railway system to enable the farmer to market his produce and render the mines profitable. The country must be in touch with the markets of the world before it can attract a population of prosperous farmers and miners and prepare an adequate home market for its own manufactures to supply. New countries, by imposing tariffs, add greatly to the cost of this essential pioneer work. Russia has been notoriously handicapped this way. If Russia had been a Free Trade country, there would be to-day many more railways in that great land; the famines that have occurred locally, during the war and since, might have been avoided or mitigated, and Russia would have been in a far better position to take advantage of the opportunity now offered to countries with vast untapped natural resources.

And to grasp a full share of the advantage which the present needs of the world offer to new countries, and at the same time play a great part in the work of world restoration, now so necessary, a new country should adopt Free Trade. I would say to such a country: "Don't worry about the finer manufactures. Make a population by developing the primary ones, and these will follow. If need be, the skilled workers

will come to you from overtaxed Europe, glad of the opportunity to make their living by teaching you all they know: but you cannot make an *export* trade by tariffs, you can only force into existence, a little before their due time, trades which will hinder and not help your progress”.

The freeing of trade in the younger lands would, however, have a marked effect in easing the situation in Europe and the more developed parts of America. We should have a demand for railway materials, for bridges, etc., and for shipping to transport them; a thing that would in itself tend to restore the buying power of Europe and increase the market for food. And in Europe the need for Free Trade is yet more imperative than in the newer lands. With them, it is a means to avail themselves of an opportunity for growth; with us, it is vital to self-preservation. Europe needs cheap food more than anything else, primarily for its own sake, but also in order that some margin may exist after the need for food has been satisfied, with which the people may buy secondary necessities. You cannot sell much to people living from hand to mouth.

It is difficult to over-estimate the immense impetus to the restoration of the world's prosperity that the universal application of Free Trade would effect. Unfortunately, the application of such a policy does not lie with us; it lies with the statesmen. Now statesmanship is the last refuge of the Philistine, and the very last thing a statesman seems capable of doing is to grasp the needs of the world as a whole, or to realise that the well-being of his own country is wrapped up in that of all other nations. Cabinets are the coffins of ideas. If we wish to make any progress in the right direction, we shall have to make a beginning with something less startling to the conservatism of statesmen, than a proposal for immediate and universal Free Trade. When we see, on the one hand, Europe starving for want of imports, the result in itself of high Protection brought about by war and blockade, still trying to keep the very things it needs from access to

its ports, and America seeking to prevent the payment of the enormous debt due from Europe by the only possible way Europe can pay it, viz. by imports, we realise with how little wisdom the world is governed. One thing, at least, however, the League of Nations might do. During the war, the agricultural tariffs of the food importing nations of Europe practically fell to pieces. Would it not be possible for us to come to an international agreement, making the trade in primary foodstuffs everywhere free by the law of nations. At present, there can be very few vested interests in tariffs on food. The civilised world is divided into a relatively few States having food to spare, and a larger number having desperate need of it; so great a need, indeed, that I think it would be impossible to maintain a tariff barrier against foreign corn, if once the position were clearly understood by the people and an energetic protest raised against the tax on bread. The Anti-Corn Law League, in my own country, is the classic instance of a successful Free Trade agitation. By narrowing the issue down to a single, easily grasped point, it roused the moral instincts of the people and secured repeal. The rest followed, and we became a Free Trade nation.

Would it not be possible to carry on an Anti-Corn Law agitation for the world? If so, and the agitation were successful, I think two results would follow: the bread of the people would be cheaper, leaving a greater proportion of their incomes available for the purchase of manufactures; while we should have created a situation in which the agricultural industries of the world would gravitate towards Free Trade. Protection for the things they sell being ruled out by international law, Protection of the manufactures they buy would arouse their fiercest opposition.

ON THE THEORIES OF FREE TRADE AND PROTECTION

by

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I.

In a paper read before the *Nationalekonomiska Klubben* in Stockholm, which has since been published in a volume dedicated to Professor DAVIDSON, Uppsala, Editor of the *Ekonomisk Tidskrift*, I have discussed at some length some of the modern arguments in favour of Free Trade and Protection.¹⁾ I came to the conclusion that most of the arguments in favour of Protection are *not* valid, *i.e.* that — so far as can be theoretically ascertained — Free Trade *practically always* and in the long run is more advantageous for a country than Protection. This is, however, a sweeping statement, and one which is not true without further qualifications²⁾. With the kind permission of Professor DAVIDSON I will therefore reproduce some of my arguments. I hope in this way to be able to justify the above statement.

It would be a great mistake to suppose that Free Traders condemn Protection as unreasonable under absolutely all conditions.

¹⁾ *Nationalekonomiska studier tillägnade Professor DAVID DAVIDSON*. Pp. 73—97. (*Ekonomisk tidskrift*, 1919, Del II).

²⁾ "Professor MARSHALL was addressing us, when our reverent silence was broken by some rash opponent who interjected half a dozen words of objection. "All short statements are wrong", said the Professor." "Is that one?" asked COURTNEY, and the incident closed with laughter." (Higgs, *Political Economy Club*, 1921, p. 353).

On the contrary all prominent Free Trade theorists have expressly admitted the *theoretical* possibility that Protection might be advantageous for certain special purposes. If retaliatory duties are excepted, the consideration of which "does not, perhaps, belong so much to the science of a legislator" — "as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician", it may according to Adam Smith in two cases "be advantageous to lay some burden upon foreign, for the encouragement of domestic industry". The first is, when some particular sort of industry is necessary for the defence of the country and must be already established during peace time, and the second case is, when some tax is imposed at home upon the produce of the domestic industry. Smith added that established duties or prohibitions, on which "a great multitude of hands" are dependent, should be abandoned only by slow gradations.¹⁾ Since the time of Friedrich List Free Traders have made further admissions. "The power to create wealth is infinitely more important than wealth itself", *i. e.* people may misjudge their own true interest, and it may be true economy to sacrifice some present good if it is possible to gain something greater for the future in this way.

Accordingly modern Free Traders freely admit that it is *conceivable* that duties for certain purposes may be advantageous, *i. e.* in order to influence the demand of consumers (duties against luxury), in order for the State to get revenue (financial duties), to promote certain collective needs ("key industries" duties), to protect industries which are supposed to be very profitable in the future (the "infant industries" argument),

1) "Were those high duties and prohibitions taken away all at once, cheaper foreign goods of the same kind might be poured so fast into the home market, as to deprive all at once many thousands of our people of their ordinary employment and means of subsistence. The disorder which this would occasion might no doubt be very considerable. It would in all probability, however, be much less than is commonly imagined..." (ADAM SMITH, *Wealth of Nations*, Bk. IV, Ch. II).

duties against temporary destructive dumping by foreign producers etc.

Free Traders, however, seldom fail to lay great stress upon their opinion that, perhaps always and certainly in most cases, these aims can be furthered much better and with less disadvantage by other means than by duties.¹⁾

Before touching upon the present situation, however, let me say a few words with regard to a most important question, *viz.* whether or not Protection can be advantageous for a country *while it lasts*. I believe that this, at least under all normal conditions, is the principal matter under discussion.²⁾

Suppose the individual needs of the people to be known. Then the question is whether these needs will be better satisfied by means of Free Trade or by means of Protection.

II.

Some objections to the "Theory of International Trade". As a matter of fact there does not exist at present any consistent Theory of Protection corresponding to the Theory of Interna-

1) Duties and other obstructions to international exchange are as a matter of principle unreasonable expedients for purposes which themselves are not always unreasonable. "Tullskydd och andra hinder för internationellt byte äro principiellt sett oförnuftiga medel för mål, som i och för sig ingalunda kunna kallas oförnuftiga, och detta vare sig man räknar med rörliga eller med orörliga produktionsfaktorer". (Heckscher, *Utrikeshandelns verkan på inkomstfördelningen. Nationalekonomiska studier tillägnade Professor DAVIDSON*. P. 31).

2) "What Free Traders contend is, that the maximum of production, and of employment which is necessary to production, is to be obtained by allowing everyone to produce, sell, and buy as his own interest dictates; that any interference with this freedom is a restriction not only on consumption, but on production; and that any such restriction must diminish the aggregate production and employment, as well as the consumption, of the country". (Lord FARRER, *Free Trade versus Fair Trade* (1904), p. 11).

In addition to the contention that the National Dividend will be greater under Free Trade than under Protection, Free Traders also hold that Free Trade generally ensures a more even and socially better Distribution.

tional Trade as expounded by Free Traders. ¹⁾ While some Protectionist authors claim to have founded a theory of their own, the majority confine themselves to a criticism of the Free Trade theory. Some of the objections put forward will be discussed below.

The main argument for Free Trade can be found in Ricardo's famous example of two countries, England and Portugal, that can only produce two commodities, cloth and wine, and are in a position to exchange these commodities profitably notwithstanding the fact that both can be produced with less labour in Portugal than in England:

"England may be so circumstanced, that to produce the cloth may require the labour of 100 men for one year; and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth.

"To produce the wine in Portugal might require only the labour of 80 men for one year, and to produce the cloth in the same country might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth. This exchange might even take place notwithstanding that the commodity imported by Portugal could be produced with less labour than in England. Though she could make the cloth with the labour of 90 men, she would import it from a country where it required the labour of 100 men to produce it, because it would be advantageous to her rather to employ her capital in the production of wine, for which she would obtain more cloth from England, than she could produce by diverting a portion of her capital from the cultivation of wines to the manufacture of cloth". ²⁾

¹⁾ See e. g. Bastable, *Theory of International Trade*, Fourth Edition, 1903, and Nicholson, *Principles*, Vol. II, Book III (1903).

²⁾ Ricardo, *Principles*, Ch. VII, On Foreign Trade.

The late Professor SCHMOLLER has contended that Free Traders should "assume" all countries to be "economically equally strong".¹⁾

However, as is evident even from Ricardo's example, this is not the case. Ricardo expressly assumes the contrary.

It is not even true that the *exchange* between two countries will become less profitable to one of them if the costs of production in that country rise generally. Suppose, for instance, that in Ricardo's example all costs of production in England are doubled. Then England will be able to produce only half as much as before, as each unit of cloth will require the labour of 200 men and each unit of wine the labour of 240 men. By each exchange between the two countries of these unit quantities England will save, i. e. gain, the labour of 40 men as against 20 men in the original case, while Portugal

¹⁾ "The new doctrine really assumes absolutely equal human beings and States *which are economically of the same strength* which, only differently endowed by Nature, will exchange their small surplusses. A. SMITH spoke of the foolishness of producing wine in Scotland by means of protective duties. Ricardo always chose the example of the trade of England with Portugal and Poland. But were these examples authoritative for the trade between England and Holland, France, Germany, or for the trade with savages and barbarians, whom Free Trade killed then as it does to day? And was not the trade, by no means quite but only relatively free, of England with Portugal and Poland, when scrutinized, a subjection and exploitation of these agrarian territories whose natural products were bought cheap in order to sell English manufactured goods to them as dear as possible?" "They forget that unrestricted Free Trade between all countries brings about increasing sales and rising economic prosperity for the countries favoured by Nature and historic development, but in the case of those neglected by Nature it may easily rob them of their industries, or even in certain circumstances of a portion of their population. No people with a national consciousness can permit that without defending itself. The consolation that Free Trade is effecting a cheaper and better production somewhere else in the world, cannot satisfy the countries thus injured". (SCHMOLLER, Allgem. Volkswirtschaftslehre, II. 1904 p. 607, The italics are mine).

In an Appendix to this paper quotations will be found in the original language (Appendix A).

as before will save the labour of 10 men. But because of the smaller productivity now assumed in England the labour of 40 men now is not worth more than the labour of 20 men was before.

Accordingly the gain from the exchange of commodities between two countries is independent of any *general* rise of cost of production in one country or in both. (When, however, freights etc. are taken into account each general rise of costs that does not affect the freights will make the exchange even *more* profitable than before).

Thus it can safely be said that the profitable exchange of commodities between two countries does not depend upon the relative "economic power" of the countries but upon the conditions prevailing in each country separately.¹⁾

This is the reason why Free Traders to start with often assume that the factors of production remain in their respective countries — where they, however, move without friction — while the commodities produced move freely also from country

¹⁾ There may be a certain tendency for the *factors of production*, viz. for Capital and Labour to move from a "strong country" to a "weak country", or from a "weak country" to a "strong country", and the direction in which they will move depends on the meaning given to the expressions economically strong and economically weak. But this does not at least not directly influence the question whether Free Trade is profitable, and whether the exchange of commodities ought to be regulated. "The idea that freedom of trade may lead to depopulation rests on a confusion between two different branches of economic action. viz. the unrestricted exchange of commodities, which is all that Free Trade prescribes, and the mobility of the industrial factors. The latter obviously depends on entirely different causes, and has little connection with the particular fiscal policy pursued. Germans emigrate in large numbers to America, Frenchmen prefer to remain at home, though both countries are protectionist in policy. In fact, the probability is, that where economic motives are the chief reason for emigration, protection will rather increase than diminish their force. Increased cost of living is not an inducement to the energetic and prudent to remain in a country". (*Bastable, The Theory of International Trade* p. 162).

to country.¹⁾ And it is under such circumstances that "the law of comparative costs" is true, i. e. that "the necessary and sufficient condition for International Trade is a difference in comparative costs as distinguished from absolute costs"²⁾.

When the comparative costs are different an exchange of commodities is remunerative, and will accordingly take place. When it is not remunerative it will not take place.

Hence Ricardo's example leads to the conclusion that Free Trade is advantageous for both countries, and that accordingly obstructive duties are injurious also for the country imposing them.

Ricardo's example, however, is very far from real life. He imagines two countries only, that produce only two kinds of commodities; he takes only one factor of production, Labour, into account, and in this factor the different individuals engaged have an equal share. He omits freights and neglects the influence of "friction" when transferring Labour from one occupation to another. Lastly, he seems to assume a Law of Constant Productivity, i. e. that an increase of Labour will increase the result of production proportionately.

Obviously it cannot be safe to contend that inferences from an abstraction of this kind should be applicable to the conditions of real life. They would be too theoretical.

However, Free Traders have not stopped at Ricardo's example, but have developed it further step by step. In this way they have tried to approach reality as near as possible. They investigate conditions by increasing and diminishing returns, pay regard to costs of freight, and to "friction". They assume that the countries produce several commodities, and trade with other countries, and, lastly, they assume exchange of commodities

¹⁾ This assumption is purely for the purpose of argument. Of course they do not deny that e.g. Capital probably will go to the country where the return is most satisfactory.

Compare the latter part of the previous quotation from Bastable.

²⁾ Cf. the illuminating examples given by MARSHALL. (Industry and Trade, 1919, p.p. 19—23).

against money instead of barter. At every step they try to investigate the effect of Free Trade and of Protection.

At this stage, however, most authors consider the assumptions made to correspond fairly well to reality. Accordingly in theoretical reasoning they generally retain the supposition that Labour is the only factor of production and the only source of income ¹⁾. Some authors, it is true, admit several factors of production but then make the further assumption that the incomes derived from the different factors of production do not go to separate persons, but that on the contrary in all people's incomes — which need not necessarily be equally large — a certain proportion is derived from Labour, another from Capital etc. In other words: The Free Traders treat each person as partly labourer, partly capitalist, partly land-owner etc. In this way they make an abstraction from the various groups within a country ²⁾.

After having found at each stage of their investigation that the exchange of commodities is profitable, Free Traders feel justified in contending that duties and other impediments to trade are detrimental. ³⁾

¹⁾ It seems that very little, if anything, is gained by Bastable's introduction of units of "productive power". He says: "The term "productive power" may be noticed. It is used to escape the awkwardness, if it be not something more, of estimating the exertions of a country in units of labour or of capital — a mode of procedure which leaves it open to the critic to speak of the omitted element as if it were an essential condition. There can be little difficulty (sic) in conceiving a given amount of labour working with an average amount of capital and thus producing a definite amount of commodity". (Bastable, *The Theory of International Trade*, p. 24).

²⁾ Cf. "The argument advanced, as well as the Free Trade doctrine in general, assumes that every member of the community is provided with the various productive powers (land, capital, etc.) exactly in proportion to his own needs, in other words, it assumes an equal distribution of the national wealth". (WICKSELL, *Finanztheoretische Untersuchungen*, 1893, p. 62 et suiv.).

³⁾ It does not seem necessary in this connection to give a more detailed account of the traditional Theory of International Trade (the

The objections that may be raised against this theory are of two kinds.

First, it may be contented that however true the conclusions be, the underlying assumptions do not sufficiently correspond to reality to make the theoretical conclusions applicable to the conditions of real life.

Secondly, while accepting the assumptions, it may be contended that the conclusions themselves have not been drawn properly.

To begin with, some objections of the latter kind may here be examined.

A rather common contention is that Free Trade may be detrimental when the "law of diminishing returns" is operating, which certainly sooner or later always will be the case. This opinion has been advocated *e.g.* by Dr. E. KELLENBERGER in the *Weltwirtschaftliches Archiv*.¹⁾

international distribution of gold, international payment, the foreign exchanges etc.) as, in fact, only certain parts have been disputed by Protectionists.

1) "Let us assume the case that it is a question first of all not of wine and cloth, but of wine and wheat, Portugal and England each producing nothing but these two products.

"There is no trade between the two countries. Portugal produces a quantity x of wine with the annual labour of 80 workmen and the quantity y of wheat with the annual labour of 90 workmen. The total annual production of Portugal would be $a.(x + y)$. England on the other hand would have to employ the annual labour of $120 + 100$ workmen to produce $x + y$. It produces also $a.(x + y)$ annually. In these circumstances there is no doubt that Portugal owing to its more fruitful soil or its more efficient farmers will better satisfy the needs of its nationals or, if the standard of life is the same in both countries, will possess a denser population than England. According to the Theory of International Values, both countries act in their own interest if they trade with each other and in such a manner that Portugal specializes in the production of wine and England in the production of wheat.

"Before the commencement of the international distribution of labour the economically available acreage in each of the two countries consisted of fields and vineyards. Owing to the specialisation the fields are now

Only a glance at the already quoted example of Ricardo is needed, however, to prove this reasoning to be quite inadequate.

It is, of course, quite possible that some producers may specialise too much, and too much specialisation in either country may no doubt be harmful for one of the countries

transformed into vineyards in Portugal. Amongst these former fields there will assuredly be found one which will in the future produce the greatest yield of wine. On the other hand there will be amongst the vineyards one which formerly produced the smallest yield of wine. We will now assume that the field most suited to wine growing, or new vineyard, produces a smaller yield than the worst of the old vineyards. What will now be the total production of Portugal after the completed distribution of labour? It was formerly a. $(x + y)$ in the production of which a. $(80 + 90)$ labourers were employed. The a. 80 vintners are joined by the a. 90 former farm hands. We will entirely neglect the fact that it needed some time before the latter were as good vintners as their teachers.

"If we assume that for the production of a certain quantity of wine x , the annual labour of 80 Portuguese is required, it is evident that we are dealing with an average figure. Some Portuguese will produce more than $x/80$, and others less than $x/80$, even if we were to assume that they were equally efficient. For assuredly not every soil would produce the same yield with equal expenditure of labour. Now we established that the most productive new vineyard produced a smaller yield than the worst of the old vineyards, which yield let us say $x/100$. The owner of the wheatfield most suited to wine growing will therefore harvest somewhat less than $x/100$, and the 90 ex-wheatgrowers, since none of them reaches the yield of $x/90$, will harvest considerably less than $90/100 x$ (?) wine. We are therefore taking a high estimate if we assume that the yield of the agriculture of Portugal will amount to a $1\frac{3}{4} x$ after completed specialisation.

"England will transform its vineyards into fields. We will also assume in this case that the former vineyards most suitable for wheatgrowing will produce a smaller yield of wheat than the worst fields did previously. The new 120 wheatgrowers will therefore not harvest $120 y/100$, but at least less than y , therefore about $\frac{1}{2} y$ (?), because even the best of the new fields produces less than $y/100$. Then the total production of England will be a. $1\frac{1}{2} y$ after completed distribution of labour.

"If Portugal and England formerly harvested together a. $(2x + 2y)$ they now only harvest a. $(1\frac{3}{4} x + 1\frac{1}{2} y)$ after completed distribution of labour. They have therefore lost wealth.

"If Portugal wishes to consume a. x wine for its own needs, it can

or both.¹⁾ The problem under discussion is, however, whether it is probable that such a stupid specialisation — which means heavy losses not only for the country, but certainly also for the too-much-specialising producers themselves — is *more* likely to occur under Free Trade than under a system of Protection.

It seems rather difficult to understand, why the producers should not be able — under Free Trade as well as under Protection — to be content with only such a degree of specialisation as is remunerative to themselves.

It does not appear very reasonable, whether under Free Trade or Protection, to assume, first, that the producers should believe (wrongly) only two alternatives to be open: either not to specialise at all, or to specialise too much, and, secondly, to assume that the producers should be naïve enough, when planning for their future production and deciding the scale, to take only the *present* marginal costs into consideration.

only send a. $\frac{3}{4}$ to England and if England claims as before a. y for its own use, it can only export a. $\frac{1}{2} y$ to Portugal.

"After the conclusion of the barter Portugal possesses a. $(x + \frac{1}{2} y)$ and England a. $(\frac{3}{4} x + y)$, whereas both possessed a. $(x + y)$ each before the distribution of labour. If we neglect the imaginable, but nevertheless important case that one of the two countries would assume the entire loss, we must come to the conclusion that the international distribution of labour has injured both countries, if proportionally diminishing gross production or rising costs accompany the specialisation.

"The spontaneous distribution of labour taking place between two countries owing to different prices involves loss to them if the expansion of production is not possible without diminishing costs".

(E. KELLENBERGER, "Zur Theorie von Freihandel und Schutzzoll". Weltwirtschaftliches Archiv, 1916).

¹⁾ It must be observed that this is possible not only with diminishing, but also with constant, or even increasing return because of the demand of consumers not being unlimited.

Curiously enough PARETO has taken great pains to show that a hat maker may possibly make too many hats. (Pareto, Manuel d'économie politique, 1909, pp. 507—514).

CF. WICKSELL, Vilfredo Paretos Manuel d'économie politique (Zeitschrift f. Volkswirtschaft, Sozialpolitik u. Verwaltung, 1913, p. 148).

If, however, this is the case it seems rather evident that *economic education* is a more efficient and effective remedy than protective duties.

This is probably very often the case. Take as an illustration the two following cases quoted by NICHOLSON:

"Again, a rise in money wages in one industry due to the expansion of foreign trade may suffice to attract labour from other industries less highly paid, although, in reality, the extra money wages are not worth the other advantages that must be surrendered. The labourer, like the consumer, is not always the best judge of his own interests." ¹⁾

"Again, it is generally admitted that the consumer is not always the best judge of his own interests, as is shown even in the case of material commodities by laws against adulteration and the like. It is quite possible that a cheap foreign product may be less advantageous than the corresponding dearer home product, ²⁾ and even that it may be expedient, on the whole, to prohibit the importation of certain foreign goods (e. g. spirits into newly occupied territories in Africa). It is very doubtful if, on the whole, the great fall in the price of tea in recent years has been beneficial to the rural population of Scotland, especially the children." ³⁾

In the writings of many Protectionist authors the opinion will be found, first, that it is desirable that *more* of a country's and of a people's resources should be utilised, and to a higher *degree*, than is the case at present, and secondly, that protective duties may be good means for this purpose.

It is, however, not so easy to understand the real meaning of this contention. That under Free Trade the resources of a country generally are utilised, when this seems profitable

¹⁾ Loc. cit., p. 327.

²⁾ Even food. (Author's remark).

³⁾ Loc. cit. pp. 324—325.

from the point of view of private individuals, is generally not denied. But the contention is that it may be in the country's interest that they should be utilised still more.

Wholly to utilise all possibilities of production even in a single country is, however, not possible. A moment's consideration will make it evident that these possibilities are infinite. It is not possible to find a single stone that could not be used for productive purposes. Accordingly the question is not to utilise as many of the resources of a country as is theoretically possible. In fact it will very likely be most profitable to employ only a few of those resources, but to employ them in the best possible way.

Man himself has certainly more aptitudes and capacities than can all be developed and fully utilised during a short life. Therefore it is necessary to decide which sort of activity ought to be chosen. Of course it may be possible at least temporarily to make an exceptional effort and so reach a better result, but this generally means a sacrifice.

The most reasonable meaning of the contention that the factors of production ought to be utilised more fully seems to be, first, that all unnecessary waste of resources should be avoided and, secondly, that man's efforts should be increased whenever this is possible without detriment. If so, the community as a whole will gain.

Accordingly the question is whether the factors of production will be used more *economically* under Protection than under Free Trade. There seems to be no reason for believing this to be the case.

A somewhat finer edition of the above argument, that the factors of production ought to be utilised more fully, may be found in some authors who contend that not only the natural resources of a country, but also the personal qualities of a people, are essentially different. As different persons have been gifted with very different abilities and dispositions, they mean,

first, that a many-sided production is highly desirable, and, secondly, that a many-sided production ought to be furthered by means of duties. ¹⁾

Both these contentions seem rather dubious. It is not always an advantage to have many aptitudes: the essential thing is to have good ones — in one sense or another. Conceivably two or three specialities may be much more remunerative than a hundred. ²⁾ Why then have a many-sided production? To “utilise” the factors of production?

Second, if really a many-sided production is remunerative it is difficult to understand why it cannot work without duties.

The late Professor PHILIPPOVICH was also of the opinion that a country's natural resources are not sufficiently utilised under Free Trade and that production might be misdirected as apparent and real costs of production do not always correspond. ³⁾ An exchange according to the “law of comparative

1) “On the other hand, a variegated industry is undoubtedly (sic) a sign of progress, and to the extent (sic) that it denotes a more efficient utilization of labour and capital and a help to enterprise, it will result in higher wages as well as greater profits, a better standard of life for the workman and a more prosperous condition for the manufacturer. Even if domestic prices are higher than those of foreign goods, the loss to the individuals as consumers is more than offset by the gain that accrues to them as producers and as participants in the general prosperity. Thus protection is demanded as a permanent policy.” (SELIGMAN, Principles (1914), p. 565).

2) It may be said that “defence is greater than opulence”. But even from this point of view it is not always an advantage to have a very differentiated production. The important thing in war is to have a supply of *necessary* goods.

3) PHILIPPOVICH gives a short, approving summary of the arguments of SCHÜLLER against Free Trade. Because of Philippovich's reputation this summary may be quoted in full:

“A new theory of protective duties based on two series of facts has recently been put forward by SCHÜLLER. In the first place, the costs of production of the same commodity are different not only in different states, but also within one and the same state, so that industries with more favourable and those with less favourable conditions work side

costs" might then be uneconomical when the real costs of production differ from the costs indicated by the product prices, which prices unquestionably do not only depend on purely

by side. In the second place, every increase in production — unless changes of another nature act in the direction of reducing costs at the same time — raises the costs, not only in agriculture, as was generally assumed, but also in industry. Moreover in every state with each specific kind of commodity both the tension is different between the highest and lowest costs at which they can be produced and also the quantity of commodities which can be produced at the different rates of cost.

"It depends on these circumstances whether, and which increase in cost will take place on a certain extension of production, and also whether, and which extension will take place in consequence of a certain increase in price. These circumstances determine the measure of superiority, in so far as it is based on the conditions of production, of one land to another. According to their order, the advantages of free imports will be larger or smaller. It can be exactly estimated by means of them how much the consumers gain compared with the loss which the political economy suffers from the displacement of producers. The theory of absolute free trade is hence incorrect. It is not true that all the productive forces of a country are always utilized, that therefore only rearrangements might be brought about by protective tariffs. In every country we find a portion of the natural conditions, such as mines, soil of various character, etc., not completely utilized. Labour is not always fully occupied, its efficiency could be increased; neither the amount of capital available for a country, nor the nature of its composition are limited absolutely. And the further assumption of the free trader is just as incorrect, viz. that under Free Trade the triumph of the producers who come victorious out of the competitive struggle is always due to the more favourable conditions of production, since the price is decisive.

"This latter depends however on the consumption so that in a territory of smaller consumption" (this is a misprint; it should be "larger"; cf. the beginning of this quotation) "even producers with more unfavourable conditions of production become capable of competing. But the Protectionists, who demand a duty for any branch of production working under more unfavourable conditions of production, are also wrong. *In every special case a comparative examination is necessary to estimate the extent of the disadvantage to the producer involved by free imports and the extent of the advantage accruing to the consumer.*

"4. The Schüller theory is founded on facts and his criticism of the Free Trade arguments is justified." (Grundriss der Politischen Oekonomie, vol. II, Part II, 7th, revised Edition, 1914. p. 359 et seq. The italics are the author's.)

technical conditions in the producing country, but are also highly influenced by the demand of consumers. If the demand is great it may be remunerative to use less fertile soil. "In einem Gebiete grossen Konsums werden auch Produzenten mit ungünstigeren Produktionsbedingungen konkurrenzfähig".

Against PHILIPPOVICH'S belief that these circumstances might in some degree refute the expediency of a Free Trade policy it may be said that there seems to be no reason whatever in this connection to distinguish between costs that are influenced by the demand of consumers, and costs which are not. The latter costs — if they exist — ought certainly not to influence the question of Free Trade or Protection. Suppose, for example, that for a certain commodity the conditions of production are such as is indicated by Fig. 1¹). It appears that by the *same*

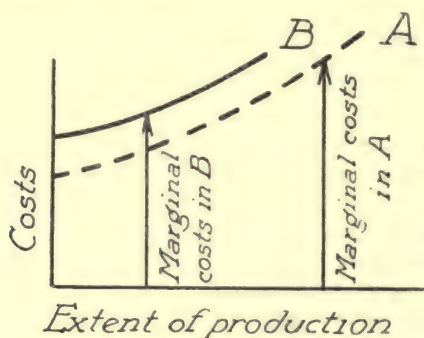


FIG. 1.

Curves showing the connection between *costs* of production and *extent* of production in the countries A (dotted line) and B.

scale of production the costs are always greater in B. It does not at all follow, however, that it would be uneconomical for the people in A to import some of the commodity from B instead of producing the whole quantity within their own country. When, as shown in the Figure, the demand for the

¹) The costs of production in the two countries are supposed to be expressed in a common measure.

commodity is very great, it is quite possible that the *marginal* costs in A may exceed those in B. When this is the case, importation is advantageous for the country. It is the marginal costs of production that matter.

Accordingly it would be a great mistake to let the trade policy of a country be decided by considerations such as to e.g. "die Spannung zwischen den geringsten und den höchsten Kosten, zu welchen produziert werden kann" and "die Menge von Waren, welche zu den verschiedenen Kostensätzen erzeugt werden können".

As has already been shown, it is not at all certain that as many as possible of a country's resources ought to be "utilised". They are infinitely many, whence it comes that a regulation of a country's production by authorities according to the above principles is *neither* theoretically desirable *nor* practically possible.

In a great volume published by the Carnegie Endowment for International Peace JOSEF GRUNTZEL has published some criticisms of the Free Trade theory which closely resemble the above contentions that the factors of production are not sufficiently utilised under Free Trade, and that Free Trade may be unprofitable for a country when the "law of diminishing return" is operating:

"When an amount equal to or exceeding that which is gained in foreign trade is lost through the restriction of home production, then there is no gain, but eventually a loss is suffered. Importation and exportation do not stand in a relation of direct communication, but are separated from each other by production and consumption, and hence a continuously favourable inner economic balance may be able to offset an unfavourable outward economic balance. In the case assumed" (that France can produce at the same cost ten cwt. of wheat or twenty cwt. of iron, while Italy at the same cost can produce ten cwt. of wheat or fifteen cwt. of iron), "Italy will do better to increase

its iron production, even on the basis of twenty" (misprint, must be fifteen) "cwt. per unit of cost, rather than sacrifice it to the cultivation of wheat. The production of a country should permit the greatest possible utilization of the productive forces at hand. If Italy wished to cultivate only wheat it would soon be at the end of these resources, while France with the aid of foreign iron ores (which incidentally play an increasingly important role in the European iron industry) might provide the whole world with iron". ¹⁾

It is, perhaps, not quite clear what the author really means by saying that "if Italy wished to cultivate only wheat it would soon be at the end of these resources".

Perhaps he means that in the future the cultivation of wheat will not be as profitable as at present. This is of course quite possible. Probably some of the producers of wheat will *then* produce iron instead.

In order to reach the conclusion that Italy ought now to increase its iron production and sacrifice part of the production of wheat — which according to supposition is at present the more remunerative — two things are evidently required of the author. First, to give some reason for that prediction of his as to the future. Secondly, — if this prediction is supposed to be founded — to show why it should be expedient to abandon at this early date a now remunerative cultivation of wheat ²⁾.

Perhaps, however, it is more reasonable to assume that the

1) Economic Protectionism, 1916, p. 130–131.

2) Cf. also NICHOLSON: "Even from the consumer's point of view, however, it is possible that the opening up of foreign trade may be in some respects disadvantageous. The greater interests of the future may be sacrificed to the lesser interests of the present. Thus limited natural resources of various kinds may be exploited rapidly and wastefully, so that a few years' cheapness may be outweighed by many years' dearness. In technical language, the law of diminishing return may come into action sooner and more severely in consequence of large exports. A country that exports continuously large quantities of raw produce may be said (as was said by CAREY) in a sense to export the land itself." (Loc. cit., p. 324). *Vide* page 13.

author, instead of having the future in view, does only consider an extension in "space" of the wheat cultivation and by this has a double conception. First, that even bad opportunities for iron production ought to be "utilised". "The production of a country should permit the greatest possible utilization of the productive forces at hand". Second, that the cultivation of wheat under Free Trade might be disadvantageous when "the law of diminishing return" is operating. These two conceptions, however, have already been criticised in this paper.

As mentioned before Free Traders in their theoretical reasoning generally abstract from the various groups (labourers, capitalists, landowners etc.) within a country. From assumptions, that are approximately true, they have drawn the conclusion that Protectionist duties and other impediments to Free Trade are disadvantageous for a country, viz. that these impediments, *as long as they last*, lessen the National Dividend of the country.

In the last ten pages some of the probably most plausible Protectionist objections to this Free Trade conclusion have been discussed. None of these objections appears to be valid.

Until new and more weighthy arguments are presented by the Protectionists it must accordingly be contended that the Free Trade theory is true as a kind of "first approximation", *i. e.* in so far as abstraction can be made of the different groups within a country.¹⁾

A more difficult question now remains to be considered, *viz.*

¹⁾ Cf. EDGEWORTH: "There are two degrees of abstraction which may usefully be employed in general reasoning about International Trade. We may contemplate each nation as a whole, making abstraction of the non-competing groups within it; or we may take account of those internal divisions. It is thus that the astronomer may sometimes calculate the motion of a planet about its axis and the orbits of its satellites, and in other reasonings, with reference to the action of a distant body, may neglect those internal movements and treat the Jovian or the Saturnian system as if it were a weighty particle. In economic science the more abstract methods have hitherto been the more fruitful. We know so little

whether it is certain that the National Dividend will always be greater under Free Trade than under Protection even in a country where different groups have different interests.

Some authors, and not a few "practical men", are fond of drawing a line between "consumers" and "producers" and contend that by Free Trade the gain to consumers may possibly be less than the loss suffered by producers because of the pressing back of home industries. Many simply forget that foreign trade stimulates the export industries, and that, of course, even producers may have to import foreign commodities of one kind or another (raw materials, machinery, food etc.). It is, however, not very often that people clearly realise what they really mean by the expressions "consumers" and "producers". Characteristic in this respect is a book "Schutzzoll und Freihandel. Die Voraussetzungen und Grenzen ihrer Berechtigung" (1905) by an Austrian economist SCHÜLLER. This author considers unrestricted Free Trade to be disadvantageous for production and therefore recommends a moderately Protective System with duties that are adapted according to the "inner structure" of the different industries, and which provide equitably for the interests of consumers and producers. The interest of consumers is evidently to be allowed to buy the commodities as cheaply as possible, but what is then the interest of producers? As a matter of fact this question is never thoroughly investigated, but the author's opinion seems to be that the interest of producers simply is to be as little superseded

how in any particular case the strains and stresses between the different parts of an economic body will be affected by external forces, that we must often be content with the general reasoning that free exchange tends to increase of production, and therefore to the benefit of the community as a whole, probably, and in the absence of any presumption that the benefit of some is likely to be attended with a more than compensating detriment to others. It is in this general reasoning that the ordinary free-trader shows his common sense; it is here that the triumphs of a BASTIAT are won". (The Economic Journal, 1901, pp. 585-586)

(wenig verdrängt) as possible, and this again seems to mean that the number of enterprises in the different industries ought to be as great as possible, as if this by itself were anything desirable.¹⁾ SCHÜLLER writes:

"The smaller in the first place the tension between the highest and lowest costs at which the commodities needed to supply the home demand can be produced, and in the second place the smaller the superiority of the foreigner in the case of commodities which cannot be produced at all under Free Trade, the greater are the advantages of a protective tariff in comparison with its disadvantages, that is to say the larger is the increase of production consequent on the tariff in comparison with the burden thus laid on consumption; the more favourable are therefore the effects of the tariff on the total income of the population."²⁾

All economists know, however, that the sole object of Production is to satisfy human wants: spiritual and material, present and future, *i. e.* to serve Consumption in the broadest sense of the word. Accordingly it is unreasonable to set up the interests of Production as against the interests of Consumption, except if it can be shown that some *individuals* are mainly producers and other individuals mainly consumers.³⁾ Such a distinction is, however, not so very easy to uphold, and even if this distinction is made, it always remains to prove that duties are expedient means to further the interest of one of these groups at the expense of another.

It is better to classify the individuals in a country according to the incomes they receive from the different factors of production.

¹⁾ *Vide* the summary given by Philippovich (quoted this paper p. 14—15).

²⁾ *Loc. cit.*, pag. 136.

³⁾ It may be observed that it was not here the question of "infant industries". — Sometimes people understand by "productive" something that will be good for future needs (future consumption).

As a matter of fact some people are mainly landowners, others labourers, or capitalists. As Land, Capital, and Labour do not always cooperate in the same proportions in different industries, a certain kind of production may be primarily in the interest of the landowners, another production in the interest of the labourers etc.¹⁾ Under the assumption that a landowner cannot by other means be transformed into a labourer, or a labourer into a landowner, it may *conceivably* be a sound policy to encourage a kind of production that eventually is specially advantageous for one of these groups. Although other groups will suffer, it is theoretically possible that the "total amount of satisfaction" may thus be augmented.

Everything, however, does then depend upon the assumptions made with regard to the relative importance of different people's needs. Of course Free Trade will always be disadvantageous for *somebody*. Accordingly it is always possible to argue that Free Trade is disadvantageous. Of greater interest is, however, the question if Free Trade can be disadvantageous when the interests of different people are supposed to have the same weight. Is it possible that the National Dividend may be less under Free Trade than under Protection if, e. g., some people are mainly landowners, others labourers or capitalists?

Most authors have answered this question in the affirmative. They have believed that it might, for example, be in the landowners' interest to buy foreign manufactures even if they would thus cause the total production in the country, and the National Dividend, to be diminished. Here some authors have found a subtle argument for Protection.

Professor NICHOLSON gives the following example:

"It may happen that the productive power of the country is diminished more than the importation of commodities is increased.

¹⁾ Cf. CASSEL, Theoretische Sozialökonomie, 1918, p. 184.

"Suppose that before the trade is opened a country has occupied and cultivated all its land and that any further produce can only be obtained at an increasing cost. Suppose also that its manufactures, compared with those of the foreign country, are produced at a very great disadvantage, whilst the food is produced at the same cost, the basis of comparison being the number of days' labour required.

"When the trade is opened and established, both food and manufactures must sell at the same price (after allowing for carriage) in both countries. There will thus be a very heavy fall in the price of manufactures in the first country and a corresponding fall in money wages. This we may assume because we suppose that manufactures can be increased indefinitely in the second country at the same or even at a decreasing cost.

"As a consequence, the manufacturers in the first country will be driven into agriculture, and they will have to sell their agricultural produce at such a price as to undersell the produce of the farmers in the second country. That is to say, wheat, for example, must be sold at a somewhat lower price than before. At the same time, however, it is produced at an increased cost, and this sale at a lower price is only possible if we assume a corresponding fall in wages, or, rather, it involves a corresponding fall in wages. *It is possible that after giving the total population the same food as before, there is little corn left over for export, that less manufactures will be obtained than when the country produced them for itself, or, to obtain the manufactures considered as necessary, the people may be obliged to stint their food.*

"The question may be asked: Why should the manufacturers migrate from the towns to the country with such disastrous results? The simplest answer is given in the extreme case when, for the manufactures they make, they may not be able to obtain at the prices established by foreign competition enough necessaries for a minimum of subsistence.".....

"It is then possible that an industry may be so affected

by foreign competition that the amount of labour and capital lost by the depression may be greater than the amount transferred to other industries in which relatively the country has comparative advantage." ¹⁾ — Compare also the author's general reasoning on the consequences of Diminishing and of Increasing Return. ²⁾

It is, however, possible to show — I believe quite satisfactorily — that even in this special case the result of Free Trade will be an *increase*, and not a decrease, of the National Dividend, i. e. that the sentence in italics is not true ³⁾. By, *National Dividend* is then understood the sum of all kinds of commodities that are at disposal during a given time (a year). However it would require too much space to give the proof here. ⁴⁾

But it ought to be mentioned that the above question is but another form of the classical problem whether it is possible that the introduction of machinery, or other labour-saving devices, may or may not restrict the demand for labour and eventually diminish the National Dividend.

No less a person than RICARDO was of opinion, that it might possibly be to the interest of private employers to introduce machinery even if the result would be a decrease of the gross income of the country ⁵⁾. It is the net gain that interests the employer—as in trade most people only seek their own

¹⁾ Loc. cit pp. 317—318. The italics are mine. As a matter of fact about the same example may be found in a great many authors, first perhaps in TORRENS, *Production of Wealth*, 1821, p. 227. Much discussed is a case given by SIDGWICK (*Principles*, 1887, p. 496—498). See also examples in KELLENBERGER (*L. c. p.* 11—12) and SCHÜLLER (*L. c. p.* 85—86). SCHÜLLER goes as far as to assume in his example that the produce of agriculture cannot be increased at all by additional labour, but nevertheless draws farreaching conclusions.

²⁾ *L. c. p.* 307—308.

³⁾ Nicholson himself does not attach much *practical* importance to the example given (*L. c. p.* 317).

⁴⁾ I beg to refer my readers to my previous paper: "Om frihandels-och tullskyddsteorier".

⁵⁾ RICARDO, *Principles*, Ch. XXXI. On Machinery.

advantage. According to RICARDO it might very well happen that the greatest net gain for the employers reaches its maximum by another kind of production than that where the gross income — comprising wages — is the greatest ¹⁾.

However, as has been shown by Professor WICKSELL, it appears that Ricardo has neglected to draw the last conclusions out of his own presumptions. "A reduction of the gross produce or its value — when we are still supposing fixed values of exchange — as a result of technical improvements is with free competition hardly possible" ²⁾.

About the same is the case with Free Trade.

III.

The question under discussion in II was whether or not Protection can be *advantageous during the time it lasts*.

Of course it has not been possible to discuss more than a few of the innumerable arguments — or non-arguments — put forth by Protectionist authors. On the other hand it may safely be contended that the arguments that have been discussed are among the best advanced on the side of Protection. The purpose of this paper has been solely to study what the *best* arguments are with regard to the above question, which certainly — and rightly — under all "normal" conditions is

¹⁾ Professor EDGEWORTH seems to have this opinion. Combating the Professors Bastable and Loria on "Sidgwick's case" Professor EDGEWORTH writes *i. a.*:

„But why should it be assumed that the working classes should live as well as before. The capitalist, like Talleyrand, will "not see the necessity". As Ricardo says with almost brutal clearness, "if the net income (the income of the capitalist) be not diminished, of what importance is it to the capitalist whether the gross income (which supports the rest of the population) be of the size of £ 3,000, of £ 10,000 or £ 15,000?" (The Economic Journal, 1901, p. 590).

²⁾ WICKSELL, Vorlesungen über Nationalökonomie auf Grundlage des Marginalprincipes, 1913, p. 199. (Originally published in Swedish).

the principal question under controversy between Protectionists and Free Traders.

The result of the discussion is this:

It appears that none of the objections discussed is valid as a refutation of the expediency of Free Trade.

IV.

In conclusion only a few words with regard to the present situation.

As was mentioned before, Free Traders have long ago freely admitted that it is *conceivable*, that duties and other impediments to Trade may be advantageous for certain special purposes, *viz.*

In order to influence the demand of consumers (e.g. duties against luxury).

In order for the State to get revenue (financial duties). (Not discussed in this paper).

To forward certain collective needs ("key industries" protective duties).

To protect industries which are supposed to be very profitable in the future (the "infant industries" argument).

Duties against temporary destructive dumping by foreign producers *etc.*

Everybody knows, however, that Free Traders seldom fail to insist that (when these aims are not mere bluff enunciated to conceal other dubious motives), these aims can, perhaps always and certainly in most cases, be furthered much better and with less disadvantage by other means than by duties. They know that none of these duties can be got for nothing but must always be paid for, by at least some of the non-protected industries. (Accordingly it is impossible to "protect" *all* industries in a country at the same time).

In addition to this there are the dangers in Protection, first, of corrupting the political life of a country, second, of provoking the animosity of other nations.

I do not intend to attempt to summarise what can be said for and against duties for these special purposes.¹⁾ But the question may be raised whether the present political and economical situation has brought out any new point in favour of Protection. I believe the answer is in the negative.

It is not so much finance duties as protective duties that are demanded at this moment, *viz.* "key industries" duties (often in connection with the "infant industry" argument) and duties against "dumping", especially from Germany. For the man in the street dumping now perhaps simply means foreign underselling of home producers.

The general depression. Without entering into details it can safely be said that the present business depression does *not* result from Free Trade. On the contrary it results — besides from monetary conditions — to a great extent from political conditions that have prevented proper Free Trade between nations.

For instance, although, perhaps, German competition menaces many industries in other countries, I do not think that it would be fair to blame the System of Free Trade for that.

As a matter of fact disturbances in the world's economy must necessarily arise when a country is required to make a large surplus of exports over imports in order to pay off a heavy indemnity.²⁾

And so far as the present depression is a general depression

¹⁾ "It is not the scientifically thought out, theoretically unimpeachable tariff that finishes up in the statute book, but the unsystematic, confused botchwork which results from the egoistical exercise of power by innumerable interested parties, and the endless compromises that are agreed to in the cabinets and commissions of the parliaments." (Professor D. VAN EMBDEN).

²⁾ For a fuller discussion of this question *vide* Mr. J. M. KEYNES's article "Effect on World Trade" (*The Sunday Times*, August 28, 1921).

An extract of Professor CASSEL's views is quoted in an Appendix to this paper (Appendix B).

affecting all industries it cannot be remedied by means of duties, that can only help *some* industries at the expense of others.

Key industries experiments. Only a few years after the Great War and at a time when the world is preparing for the Disarmament Conference in Washington any *new* fostering of war industries does not seem very *opportune*. It is, however, possible — and reasonable to assume — that the spokesmen of “key industries” duties have not only the needs for a future new war in view, as primarily the necessity of preparing for future *commercial* competition. The “key industries” duties would thus foster industries that might be commercially advantageous in the future (the “infant industry” argument).

It is *possible* that an infant “key industry” duty will pay at some future date, but that is by no means certain; it is indeed rather improbable. (If it were probable that the industry would soon become profitable, it would pay private individuals themselves to form some sort of share holders company and make advances that the industry might get a start.) The expected gain is as uncertain as the *cost* to the Nation during the time the “key industry” duty *lasts* — is certain. A “key industry” duty is, to say the best of it — a sort of State speculation that may, or may not, turn out well.

Is this a time for State expenditure? At a time when the cry is for National Economy it may well be questioned whether — even if “key industry” duties are of assistance in future commercial competition — this is the right time to impose them.

From an Anti-Waste point of view it would be a wise and consistent policy at the present time to resist the expenditure involved in fostering infant “key industries”. Certainly the Anti-Waste Leagues that have now been established in some countries, might with advantage fight and cut down such expenditure!

QUOTATIONS IN THE ORIGINAL
LANGUAGE.

(Page 5.) „Die neue Lehre fingiert eigentlich lauter gleiche Menschen und lauter wirtschaftlich gleich starke Staaten, die nur von Natur verschieden ausgestattet, ihre kleinen Überschüssetauschen sollten. A. Smith sprach von der Thorheit, durch Schutzzölle eine Weinproduktion in Schottland zu erzeugen. Ricardo wählte immer das Beispiel des Verkehrs von England mit Portugal und Polen. Aber waren diese Beispiele massgebend für den Verkehr zwischen England mit Holland, Frankreich, Deutschland? oder auch für den Verkehr mit Wilden oder Barbaren, welche der Freihandel damals wie heute tötete. Und war denn der keineswegs ganz, sonder nur relativ freie Verkehr Englands mit Portugal und Polen nicht auch, bei Lichte besehen, eine Niederhaltung und Ausbeutung dieser Agrargebiete, deren Naturprodukte man billig kaufte, um ihnen englische Fabrikate möglichst teuer zu verkaufen?.....”

„Sie vergessen, dass unbedingt freier Handel zwischen allen Ländern zwar den von Natur und historischer Entwicklung begünstigten steigenden Absatz und wachsende wirtschaftliche Blüte bringt, den ärmeren, von Natur vernachlässigten aber leicht ihre Gewerbe, ja unter Umständen einen Teil ihrer Bevölkerung entzieht. Das kann sich kein selbstbewusstes Volk gefallen lassen, ohne sich zu wehren. Der Trost, dass der Freihandel irgendwo sonst in der Welt eine billigere und bessere Produktion erzeuge, kann den benachteiligten Ländern nicht genügen”. (Schmoller, Grundriss der Allgem. Volkswirtschaftslehre II, 1904, S. 607.

(Page 8.) „Das angeführte Raisonement, sowie die Freihandelslehre überhaupt, setzt voraus, dass jedes Mitglied der Gesellschaft mit den verschiedenen Produktivkräften (Land, Kapital etc.) versehen ist genau im Verhältnisse zu seinen eigenen Bedürfnissen m. a. W.: sie setzt eine gleichmässige Verteilung des nationalen Reichtums voraus”. (Wicksell, Finanztheoretische Untersuchungen, 1896, S. 62 f.)

(Page 9.) „Gesetzt den Fall, es handle sich zunächst nicht um Wein und Tuch, sondern um Wein und Korn. Portugal und England erzeugten jedes nichts anderes als diese beiden Produkte.

„Es bestehe kein Verkehr zwischen den beiden Ländern. Portugal erzeuge die Menge x Wein mit der Jahresarbeit von 80 Arbeitern und die Menge y Korn mit der Jahresarbeit von 90 Arbeitern. Der

Gesamtjahresertrag Portugals betrage $a(x + y)$. England hingegen müsse zur Hervorbringung von $x + y$ die Jahresarbeit von $120 + 100$ Arbeitern aufwenden. Es erzeuge ebenfalls jährlich $a(x + y)$. Unter diesen Umständen ist unzweifelhaft, dass Portugal infolge seines ergiebigeren Bodens oder seiner tüchtigeren Wirtschaftler seinen Angehörigen eine bessere Bedürfnisbefriedigung gestatten oder, wenn das Bedürfnisniveau in beiden Ländern gleich hoch steht, eine dichtere Bevölkerung besitzen wird als England. Nach der Theorie der internationalen Werte handeln nun beide Länder zu ihrem Vorteil, wenn sie miteinander in Verkehr treten und zwar derart, dass sich Portugal auf die Produktion von Wein und England auf die Produktion von Korn spezialisiert.

„Vor dem Beginn der internationalen Arbeitsteilung bestand die wirtschaftlich verwendbare Bodenfläche in jedem der beiden Länder in Äckern und Weinbergen. Durch die Spezialisierung werden nun in Portugal die Äcker in Weinberge umgewandelt. Unter diesen ehemaligen Äckern wird sicherlich einer zu finden sein, der in Zukunft den höchsten Ertrag an Wein liefern wird. Andererseits wird unter den alten Weinbergen einer vorhanden sein, der bisher den geringsten Ertrag an Wein hervorbrachte. Wir wollen nun annehmen, dass der zum Weinbau geeignetste Acker oder neue Weinberg geringeren Weinertrag erzeuge als der schlechteste der alten Weinberge. Wie hoch stellt sich nun der Gesamtertrag Portugals nach vollzogener Arbeitsteilung? Zuvor betrug er $a(x + y)$, an dessen Hervorbringung $a(80 + 90)$ Wirtschaftler tätig waren. Zu den $a. 80$ Winzern treten nun die $a. 90$ ehemaligen Ackerbauern. Wir wollen ganz davon absehen, dass es längerer Zeit bedarf, bis diese zu ebenso tüchtigen Winzern wie ihre Lehrmeister werden. Wenn wir voraussetzen, zur Hervorbringung einer bestimmten Menge Weines x sei die Jahresarbeit von 80 Portugiesen nötig, so ist klar, dass es sich dabei um einen Durchschnittsbetrag handelt. Einige Portugiesen werden mehr als $x/80$ und andere weniger als $x/80$ produzieren, selbst wenn wir annehmen wollten, dass alle gleich tüchtig wären. Denn sicherlich wird nicht jeder Boden den gleichen Ertrag bei gleichem Arbeitsaufwand hervorbringen. Nun setzen wir fest, dass das ertragreichste neue Reb Gelände immerhin geringeren Ertrag bringe als der schlechteste der alten Weinberge, der vielleicht $x/100$ einbrachte. Der Besitzer des zum Weinbau geeignetsten Getreideackers wird mithin etwas weniger als $x/100$ und die 90 ehemaligen Getreidebauern werden, da keiner von ihnen den Ertrag von $x/90$ erreicht, bedeutend weniger als $90/100 \times x$ Wein ernten. Wir schätzen also hoch, wenn wir annehmen, der Ertrag der Landwirtschaft Portugals belaufe sich nach vollzogener Spezialisierung auf $a. 1\frac{3}{4} x$.

„England wird seine Weinberge in Äcker verwandeln. Auch hier wollen wir voraussetzen, dass die zum Kornbau tauglichsten ehemaligen Weinberge geringeren Kornertrag bringen werden als die bisher schlechtesten Äcker. Die neuen 120 Ackerbauer werden also nicht $120. y/100$ ernten,

sondern mindestens weniger als y , mithin etwa $1/2 y$, weil selbst der beste der neuen Äcker weniger als $y/100$ erzeugt. Dann wird der Gesamtertrag Englands nach vollzogener Arbeitsteilung a. $1\frac{1}{2} y$ betragen.

„Ernteten Portugal und England früher zusammen a. $2x + 2y$ so nach vollzogener Arbeitsteilung nur noch a. $(1\frac{3}{4}x + 1\frac{1}{2}y)$. Sie haben also an Reichtum verloren. Will Portugal wie bisher a. x Wein für seinen eigenen Bedarf konsumieren, so kann es nur a. $3/4 x$ nach England senden und beansprucht England wie bisanhin a. y für seinen eigenen Bedarf, so kann es nur a. $1/2 y$ nach Portugal exportieren. Nach Abschluss des Tausches besitzt Portugal $x + 1/2 y$ und England $3/4 x + y$, während beide vor der Arbeitsteilung je $x + y$ besaßen. Sehen wir von dem zwar denkbaren, aber immerhin unwahrscheinlichen Fall ab, dass eines der beiden Länder den Verlust allein auf sich nehme, so müssen wir den Schluss ziehen, dass die internationale Arbeitsteilung jedem Lande zum Schaden gereicht, wenn mit der Spezialisierung verhältnismässig sinkende Rotherträge oder steigende Kosten einhergehen.....“

„Die sich zwischen zwei Ländern infolge verschiedener Preise selbsttätig durchsetzende Arbeitsteilung fällt zu ihrem Schaden aus, wenn die Produktionsausdehnung nicht mit sich vermindern den Kosten möglich ist.“ (E. KELLENBERGER, „Zur Theorie von Freihandel und Schutzzoll.“ Weltwirtschaftliches Archiv, 1916).

(Page 14.) „3. Eine neue Theorie des Schutzzolles hat jüngst SCHÜLLER vorgetragen und auf zwei Tatsachenreihen gegründet. Erstens sind die Produktionskosten derselben Ware nicht nur in den verschiedenen Staaten, sondern auch innerhalb desselben Staates verschieden gross, so dass immer Betriebe mit günstigeren und solche mit weniger günstigen Bedingungen nebeneinander arbeiten. Zweitens erhöht jede Vermehrung der Produktion — wenn nicht gleichzeitig eintretende Änderungen anderer Art kostenersparend wirken — die Kosten, nicht nur in der Landwirtschaft, wie man allgemein annahm, sondern auch in der Industrie. In jedem Staat ist ferner bei den einzelnen Warengattungen sowohl die Spannung verschieden zwischen den geringsten und den höchsten Kosten, zu welchen produziert werden kann, wie die Menge von Waren, welche zu den verschiedenen Kostensätzen erzeugt werden können. Von diesen Verhältnissen hängt es ab, ob und welche Kostenerrhöhung bei einer bestimmten Ausdehnung der Produktion eintreten, sowie ob und welche Ausdehnung im Gefolge einer bestimmten Preiserhöhung eintreten wird. Diese Verhältnisse bestimmen das Mass der Überlegenheit, soweit sie in den Produktionsbedingungen begründet ist, eines Landes über ein anderes. Je nach ihrer Ordnung werden die Vor- und Nachteile der freien Einfuhr verschieden gross sein. Man kann an ihnen genau abwägen, wie viel die

Konsumenten gewinnen im Verhältnis zu dem Verlust, den die Volkswirtschaft durch die Verdrängung von Produzenten erleidet. Die Theorie des absoluten Freihandels ist darnach unrichtig. Es ist falsch, dass stets alle Produktivkräfte eines Landes ausgenützt seien, dass durch den Schutzzoll also nur Verschiebungen eintreten könnten; in jedem Staate sehen wir einen Teil der Naturbedingungen, Bergwerke, Boden verschiedener Qualitäten, nicht vollständig ausgenützt. Die Arbeitskräfte sind nicht immer voll beschäftigt, ihre Leistungen können erhöht werden, weder die Menge des für ein Land verfügbaren Kapitals, noch die Art seiner Zusammensetzung ist absolut begrenzt. Ebenso unrichtig ist die weitere Annahme der Freihändler, dass bei Freihandel die Überlegenheit des siegreich konkurrierenden Produzenten immer auf einer günstigeren Gestaltung seiner Produktionsbedingungen beruhe, da ja doch die Preisgestaltung entscheidend ist, diese aber auch vom Konsum abhängt, so dass in einem Gebiete geringen (misprint, must be *grossen*. Cf. the beginning of this quotation.) Konsums auch Produzenten mit ungünstigeren Produktionsbedingungen konkurrenzfähig werden. Allein auch die Schutzzöllner, welche für jeden unter ungünstigeren Produktionsbedingungen arbeitenden Produktionszweig einen Zoll verlangen, haben unrecht. Vielmehr ist in jedem speziellen Fall eine vergleichende Prüfung der Grösse des Nachteiles, der den Produzenten durch freie Einfuhr, und des Vorteiles, der den Konsumenten dadurch erwüchse, erforderlich.

„4. Die Schüllersche Theorie ist durch die Tatsachen wohl fundiert und seine Kritik der Freihandelsargumente berechtigt.“ (Philippovich, Grundriss der Politischen Oekonomie, Zweiter Band, Erster Teil, Siebente, revidierte Auflage 1914, S. 359 f.).

(Page 21.) „Aus den vorausgehenden Betrachtungen ergibt sich: Je geringer erstens die Spannung zwischen den höchsten und den niedrigsten Kosten ist, mit denen die zur Deckung des inländischen Bedarfes erforderliche Warenmenge im Inlande erzeugt werden kann, und je geringer zweitens bei den Waren, welche bei freiem Handel überhaupt nicht produziert werden können, die Überlegenheit des Auslandes ist, desto grösser sind die Vorteile eines Zolles im Verhältnis zu seinen Nachteilen, das heisst desto grösser ist die durch den Zoll erfolgende Steigerung der Produktion im Verhältnis zu der dadurch verursachten Belastung des Konsums; desto günstiger sind daher die Wirkungen des Zolles auf das Gesamteinkommen der Bevölkerung“. (SCHÜLLER. Schutzzoll und Freihandel. Die Voraussetzungen und Grenzen ihrer Berechtigung, 1905, S. 136.)

A Q U O T A T I O N

from PROFESSOR CASSEL'S

"Second Memorandum on the World's Monetary Problems".

League of Nations. Geneva, August 17th, 1921.)*

"Finally, we have to consider the indemnity question from the aspect which has so prominently engaged international discussion on the subject during recent months—namely, the unwillingness of the claimants to receive the indemnity which they claim. This absurd situation, as it might be thought, is a result of the widespread influence which protectionist ideas have acquired since the war, principally by the exploitation of war-antagonism. The countries which are entitled to participate in the indemnity are not willing to receive German products; nor do they wish, in cases where actual reparation is required, to open their doors for German labour or German enterprise which would share the employment and profits offered by reparation work.

"Sometimes the ultimate consequences of this standpoint are recognised, and it is declared that the indemnity must do more harm than good to the country receiving it and that it is better to abandon the whole indemnity. This is, of course, wrong. No economist, reasoning on purely economic grounds, could endorse such a view. To receive an indemnity is undoubtedly an economic advantage. But it is not an unmixed advantage. The indemnity must somehow be paid in commodities and services; these commodities and services must compete with commodities and services supplied by the receiving country itself, and the competition must be so far successful as to allow the indemnity to be paid. In some branches of industry such competition is bound to have very disagreeable effects.

"The full real advantage can only be drawn from the indemnity payments when the economic life of the country has been adjusted to the new conditions. During the first period of adjustment the disadvantages will probably even preponderate. When the indemnity has ultimately been paid, a new adjustment will be necessary and will cause distur-

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bances which, though probably not so serious as those of the first adjustment, will be disagreeable enough.

"At present the primary problem for the countries which claim the indemnity would appear to be that of avoiding the initial disturbances, or, at any rate, mitigating them as much as possible. The usual plan is to throw these disturbances on to other countries, close the frontiers against German competition, and let the flood of German goods go elsewhere. This course does not seem entirely just to other countries which have nothing to do with the indemnity, and these countries can hardly be expected to give their support to such a policy of economic devastation. The consequence has been a general growth of protectionism, and, notwithstanding all that was said at the International Financial Conference at Brussels in favour of free trade and free intercourse between nations, the world is unmistakably moving in the opposite direction.

"This result of the indemnity is most unfortunate and injurious, and is perhaps the most important hindrance to the economic recovery of the world which, even for the Allied countries, is of much greater interest than any indemnity. What makes the protectionism of to-day so especially pernicious is that it leaves everything in a state of uncertainty. The world's trade can adapt itself to adverse conditions, but in the present state of affairs no one knows to what conditions trade should be adapted". (P. 17.)

FREETRADE AND EXCHANGE.

Freetrade and Anti-low exchange (dumping) measures

by

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Dumping is in the science of political economy still a new word. In MURRAY's new English Dictionary on historical principles, 1897, one finds f. i.: dumping = flinging down in a heavy mass, but as a word in political economy it is not mentioned. The Handwörterbuch der Staatswissenschaften, 1909, does not mention the word dumping separately.

But in the Encyclopaedia Britannica, 1910, vol. 8, p. 668, one reads: "The use of the term dumping in the economics of international trade has come into prominence in the tariff reform controversy in the United Kingdom (about 1903). It is sometimes used loosely of the importing of foreign goods at prices below those ruling in the importing country; but strictly the term is applied to the importing at a price below the cost of production, of the surplus of manufactures of a foreign country over and above what has been disposed of in its home market. The ability to sell such a surplus in a foreign market below the cost of production depends on the prices of the home market being artificially sustained at a sufficiently high level by a monopoly or by a tariff or by bounties. An essential factor in the operation of dumping is the lessening of the whole costproduction by manufacture on a large scale".

Nowadays one understands under dumping also the coming into a country of foreign goods at a lower price than that for which they can be produced in that country itself and that in consequence of the low exchange of the exporting country.

The freetrade idea is very indefinite. Freetrade exists as soon as only one state in the world does not impose import- and exportduties and does not give import- and exportpremiums (bounties ¹⁾). But that of course is not what is generally understood under freetrade. For freetrade there are three important reasons.

Firstly, freetrade increases international traffic, improves international intercourse and understanding and thus diminishes the chance of war. It also diminishes the — if one may say so — necessity of annexation, for one of the chief reasons for which territory is annexed is to have the opportunity to import and export there in the most advantageous way, and in territory with freetrade that opportunity is for all the same. Secondly, freetrade — no importduties and no exportpremiums — the last however are here of less — only fiscal — importance — makes the necessities of life in the country where it exists as cheap as possible and is therefore a great advantage for the consumers in that country.

Thirdly, freetrade — no import and no export premiums propagates the home industry — rather somewhat indirectly and in a more roundabout way than the other system — protection — professes it to do — for it teaches or compels the industry — the producers in the country where it exists to work well, hard and economically in order to be able to compete with the industry in other countries, also those, which are more or less privileged, generally through natural circumstances.

It is worth while to note, that the first reason is of international importance, the two other reasons are of national importance, they regard respectively the homepeople and the homeindustry, they might be called of a lower, a more selfish

¹⁾ ADAM SMITH, *Wealth of Nations*, Book IV, Chap. V last alinea "Bounties are sometimes called premiums, as drawbacks are sometimes called bounties. But we must in all cases attend to the nature of the thing, without paying any regard to the word".

order, it is the first reason which lifts freetrade to a more idealistic sphere.

In a country with freetrade it is of importance for an industry, that there are other countries without import duties, for then that industry is better able to work for the other countries also.

Whether an industry in a country with freetrade is able to compete with that same industry in countries with import-duties depends on different circumstances it may be able in one such country and not in another.

For that industry it is after all a question of some more or less selling — but no more.

If however there is only *one* country, that gives export-premiums to an industry, then, the same industry in a country with freetrade may be killed. For then the articles which it makes may come on its home market at a lower price from the premium giving country than for which the industry in that freetrade country is able to produce them, and of course of exporting from the freetrade country is even less question.

If a country with freetrade — to which, as was stated above — is adhered to partly in the interest of the home industry, does not take action against a country with export-premiums, that country acts actually against one of the tenets of freetrade, viz. propagating, or to use an actual expression safeguarding of industries at home.

The very bad and dangerous working of export-premiums is generally not well known, for reason that they are not used very often, still it is not a new institution.

The oldest wellknown export-premium was the bounty upon the exportation of corn granted in England in 1688 — which was only repealed for good in 1806. It was that bounty from which the three great classic economists studied the question and took their position. ADAM SMITH (1723—1790) in his "An inquiry into the nature and causes of the wealth of nations", 1776, Book IV Chap. V declared himself against them.

THOMAS ROBERT MALTHUS (1766-1834) defended them in his "An essay on the principle of population or a view of its past and present effects on human happiness", 1798, Book III Chap. XI.

DAVID RICARDO (1772-1823) in his "Principles of political economy and taxation", 1817, Chap. XXII was against them.

A still more important case of export premiums is the sugar bounty which was granted in different countries. The very bad effect of that bounty in the different countries was felt as far back as 1863. In that year it was tried already to act against them by international coöperation but without success. It was only the Brussels sugar convention of 1901/2 which made an end to those bounties.

Although export premiums belong to the system of protection, it seems that protectionism does not feel much for this institution, their great and far reaching consequences are apparently too evident.

It is now the very strong decline in the exchange of some countries which comes to take the role of export premiums, but then in an altogether unprecedented way. Whereas export premiums were or are given in the interest of one or more special industries, the low exchange effects them all at the same time, agriculture included.

It need no saying, that the state of the international trade where we live in at present is such as could not be foreseen, or even dreamt of by economists, who lived before this time.

The now living people have to find the remedies for the cure of our present society brought to such a bad state through the war and the peace.

Many of the old doctrines, theories etc. of political economy have to be revised or put aside.

The theory of JOHN BRIGHT (1811-1889) and RICHARD COBDEN (1804-1865) of the Manchester School, the theory of „laissez faire, laissez aller“, the idea that trade and industry have to be left to themselves at least with the least possible inter-

ference of the state, no protection, is perhaps too „doctrinair” for some cases in the present time.

It may be reminded here, that at present there does not exist a civilized country without any import duties, with absolute freetrade. Some more or some higher duties therefore is not so bad as it would be if real freetrade existed in different countries, and as long as importduties are imposed in all the civilized countries, some more or some higher duties as anti-dumping measure are not so dangerous for the peace as some people now profess it to be.

The practical side of the question of anti-dumping measures will not be touched here. Where, when and on which articles import duties have to be imposed will not be considered here.

This question certainly wants very careful study by those who are responsible for it.

The most important reason against anti-dumping measures at this time certainly is, that if they are instituted, it is in the first place against Germany and then this country will have a still greater difficulty to make the money to pay the wardebt to the Entente, and the German exchange will go (at least in theory) still lower.

But if anti-dumping measures are not instituted, Germany will be better able to export, to make the money to pay the wardebt, but then the industry in some countries with a high exchange (England, Holland, U. S. A., France etc.) will be ruined in some cases. And although in theory the German exchange will go up, Germany, if she thinks it advantageous, will be able through different manipulations to keep her exchange at a low level.

To the antagonists against anti-dumping measures belong those who want to keep to the strict dogma of freetrade, no interference, no duties, but who forget, that one of the chief aims of freetrade is, to work in the interests of industries which promise to be — under normal conditions — a great support of the national welfare. The other antagonists of anti-

dumping measures are bankers, shipowners and commercial men.

They do not think the killing of some industries serious. Forgetting however too much, that it is not only the loss of a certain amount of money settled in those industries, but also a constant loss of manual work for the Nation and an important change in the economical structure of the country. We leave the question of the preparation for wartime untouched. However important in themselves, one must not make too much of manifests concerning the dumping question from bankers, remembering that their business has little or nothing to fear from dumping, if not to gain.

Considering that at the present time real freetrade does not exist and that the League of Nations, aerial navigation, the always growing tendency for better international understanding etc. promise a bright future for real freetrade, it seems rather insignificant if to protect some home industries, which under normal conditions can maintain themselves, in those abnormal days, as a *temporary measure*, a step is made on the road of international trade which may seem a little backward.

FREE TRADE AND THE FOREIGN EXCHANGES. .

by

Sir GEORGE PAISH.

Never have the nations whether they were participants in the war or were neutrals been exposed to as much danger as they are to-day. Already vast numbers of persons are suffering, in every nation. The greater part of the world's factories are silent, ships are short of freight, the railways have little traffic and many millions of workers are without work. In the United States the number of unemployed reaches to no less than six millions and is still increasing. In Great Britain there are more unemployed than ever in the nation's history, while most people are occupied for only part of the week or day. Unless a remedy is soon applied it is obvious that the business of the world will practically stop and that Governments, municipalities, railways, shipping companies manufacturers, merchants and traders, will be unable to secure enough income to meet their outgoings.

Indeed, the credit of nations, corporations, companies and individuals even now is strained in a degree never before experienced, and it is clear that if events continue to move as they are now moving it will soon become almost impossible for any one to pay the sums due by them whether it be taxes or debts.

The rates of exchange give some indication, although by no means a complete one, of this financial danger and the tale told by them shows clearly that the breakdown is already very far advanced. The Russian rouble which prior to the War was at par is now practically valueless, tens of thousands of roubles having to be given for a sovereign in place of the normal ten. In Poland fourteen thousand marks have to be given for a sovereign in place of the normal twenty. In Austria the krona has so depreciated that some 3,500 have now to

be given for a £ in place of twenty four. Nor is the situation much better in Hungary or in the Balkan States generally, where the discount in most of the currencies in comparison with the £ exceeds 90 %. In Berlin the mark is also falling rapidly and has become of little value. Even the currencies of the victorious powers show great depreciation and threaten to fall still further in value as trade becomes more depressed and the difficulty of collecting and making payment becomes greater. Even the British pound, the standard currency for international transactions, is at a discount of about 25 percent in comparison with gold parity.

Unfortunately the trouble is more serious than even the depreciated exchanges indicate, for it is becoming difficult to do business at any rate of exchange, the losses already incurred having rendered it impossible for many people to take further risks or to obtain the required credit.

The reasons for the breakdown are various. One of the major causes is the reduced productive power and disorganisation of the countries in which the wars were fought, and their consequent inability to pay in goods for what they need to buy from other countries.

A second cause is the desire of the victorious and new nations to punish their former enemies and their consequent unwillingness to enter fully into trade relations with them.

A third cause is the imposition of penalties for reparation which greatly curtail the purchasing power of the defeated countries.

Last, but by no means least, are the increased difficulties placed in the way of the exchange of goods, a very large number of countries having increased their protective duties in order to keep out foreign goods. Even Great Britain has imposed tariffs designed to protect her manufacturers from the competition of countries whose exchanges are at a discount in comparison with the British £ and to afford protection to new industries started during the war.

Thus, the world has not only fewer goods to exchange in

consequence of the war but is unwilling even to exchange the small quantities of goods that are available. The nations injured by the war thus receive additional injury from their inability to sell the goods they can still produce, while the nations that were uninjured by the war are now most seriously injured by their inability to sell their productions owing to their increasing unwillingness to accept payment either in goods or in securities.

Moreover this unsatisfactory condition of international trade has reactions upon the exchanges which bring a still greater measure of trade depression. With the volume of international trade greatly reduced, national trade is also depressed and Governments are unable to collect sufficient taxation to meet their expenditures. These are maintained at high levels because of the unwillingness, indeed, in some countries of the political inability, of Governments to discharge superfluous Government servants by reason of the general lack of employment. Hence, Government expenditures remain high while the Government revenues are low and the consequent deficiencies have to be covered either by printing more notes or by fresh borrowing. In those countries which resort to the printing press to cover Budget deficiencies the expansion in the currency and the maintenance of the national consumption at a higher level than the nation's productive power and income justifies tends to bring about still further depreciation in the international value of the national currencies and to cause fresh contraction in the volume of international trade.

And with all this, the uncertainties of the future course of the exchanges render business exceedingly difficult to arrange, either from the point of view of the country which has goods to sell or of the country which desires to buy.

It is clear that until the nations stop printing additional notes and are able to adjust the national expenditure to the national income, both for Government and for civilian purposes stability of exchange will be impossible, since an increasing

volume of currency tends to counteract the adjusting effect of an adverse exchange. If the printing of fresh notes be prevented and adjustment left to natural forces, a low exchange would check consumption and stimulate production, would curtail imports and stimulate exports, until an equilibrium both of foreign trade and of national expenditure was secured. This natural method of correction is singularly efficacious. Nations would be forced to produce and to sell in proportion as they needed to buy and would buy in proportion as they needed to sell. It is essential that this natural method of adjustment should be resorted to at the earliest moment possible. Sooner or later whatever steps are taken natural forces will become all-powerful. The nations cannot go on for ever printing notes and seeking to buy more than they can sell, nor can other nations for ever go on selling more than they buy. The natural method of adjustment may be delayed, but it cannot be avoided. Sooner or later the visible and invisible exports of a nation must correspond to its imports and the imports of a nation must correspond to its exports. Moreover, sooner or later income and expenditure must balance, as nations cannot go on for ever living above their income.

The breakdown that has now taken place shows clearly that the long period of inflation, of excessive expenditure and of deficient production in many countries are at last having their natural consequences and that nations are now being compelled to confine their imports to their power to pay for them in goods and services and to confine their exports to their willingness to accept payment from other nations in kind.

The problem which now demands solution is how soon these abnormal conditions can be restored to normal. Clearly, if nations refuse to buy goods from other nations in exchange for the goods they wish to sell; then the volume of trade will remain exceedingly restricted; for whatever may be the productive power of a nation it cannot sell more goods than it is prepared to buy unless it is willing to grant credit for the

balance or to take payment in securities. At the present time the credit facilities of the world are so overstrained that the prospects of creating fresh credit are not favourable and the securities which other countries are willing to buy are in very limited supply.

In view of the overstrained condition of credit and the growing dearth of securities saleable in countries with surplus exports, we are now confronted with a situation in which nations, whose productive power has been seriously injured by the war, will have to reduce their imports to the low level of their exports and in which nations, whose productive power has not been injured by the war, will have to reduce their exports to the low level of their imports, a situation which means great privation, unemployment, and loss in all countries.

Therefore the questions that urgently need to be answered are: First, Is it possible to bring about a greater exchange of goods notwithstanding the restricted productive power of so many nations and thus to improve and stabilise the exchange? Secondly, Is it possible to enable the nations whose productive power is restricted to obtain credit and thus to purchase the goods which they require and with which other nations can supply them, in order that they may restore their productive power and thus bring about a still further improvement in the exchanges? Unless these two problems can be solved the volume of international trade must continue to decline, and the currencies of the nations which need to buy and cannot pay except in paper will show still greater depreciation. But whatever solutions may be suggested it is obvious that a greater interchange of goods cannot be effected by protective tariffs, which are designed to prevent imports and which in proportion to their efficaciousness must also stop exports.

Under these conditions one is amazed to find that in spite of the small volume of international trade arising from the scarcity of production, the exhaustion of credit, and the lack of saleable securities the statesmen of many countries are seeking to increase tariffs, thereby still further increasing instead of

diminishing the mischief of the exchanges. It is essential that the people of the world should realize that the statesmen of the world are bringing ruin to the nations. Were they to allow goods to flow freely into the countries that need them and are prepared to pay for them in other goods, the exchanges would at once begin to right themselves and depreciation in the currencies to diminish. As it is, the higher barriers to the import of goods are bringing about greater and greater depreciation in the exchanges and rendering trade still more difficult to transact. No impartial survey of the situation can be made without the very definite conclusion being reached, that what the world urgently needs today to rectify the exchanges is lower not higher tariffs and no impediments to the free movement of goods into the countries that require them and can pay for them. Under a system of free exchange it would soon become evident that immediately nations generally were prepared to buy more freely they would also be able to sell more freely.

In view, however, of the diminished productive power of the Continental nations the removal of tariff barriers could not alone effectively restore the world's trade and the exchanges. Until the damage to production caused by the war has been restored and an equilibrium established between the productive power of the injured and the uninjured nations it will not be possible for the latter to pay entirely in goods. They must be allowed to pay in part in securities or by credit operations.

Clearly the Americas or Australia or South Africa cannot sell normal quantities of cotton, wool and other products until the productive power of the European nations is sufficiently re-established to enable them to sell a corresponding quantity of their own goods or to render services of equal value, unless they are prepared to accept payment in part in securities or by credit operations.

Thus, concurrently with a reduction, indeed the abolition of tariff barriers it is essential that credit should be created which would enable the European nations to satisfy their

needs and to restore their own productive power and which at the same time would allow the nations whose productive power under existing conditions is excessive, to sell the produce and goods they are now unable to sell.

The Brussels Financial Conference recommended the adoption of what is known as the Ter Meulen plan in order to solve this problem and to allow nations with depreciated currencies and exhausted credit to purchase what they required in order to recover their productive power. Unfortunately, the policies of the nations since this plan was evolved have tended further to destroy confidence and to render the sale of such bonds increasingly difficult to arrange. This does not necessarily mean the abandonment of the plan, but it does mean that further measures are necessary. The additional measures which the situation now demands are obvious. The credits granted to the nations, which cannot satisfy their needs and recover their productive power without additional credit, must be guaranteed not only by the Governments of the countries to which credit is granted, but also by the Governments of the countries which grant the credits.

In other words the credit now needed requires international in place of merely national guaranties. Unless such credits are granted the nations desiring to sell their products will be unable to do so and will be involved in loss and privation while the nations which need credits will sink deeper into poverty. By guaranteeing the credits granted for the purchase of its products the selling nation would not only be able to dispose of its products, and thus prevent the un-employment of its people, but it would eventually receive payment for the credit granted. The creation of such international credits would at once bring recovery and stability to the exchanges and would enable the exchange of goods to be resumed in those cases where the difficulties arise from the fluctuations and uncertainties of the exchange.

In brief, the breakdown of the exchanges which is now so far advanced, may in large measure be rectified not by raising

the tariff barriers, which so many nations are now doing, but by lowering them, and may be temporarily rectified completely by the grant of credit by the uninjured to the injured nations for the purpose of reconstructing the devastated districts and repairing the physical damage of the war. For rectification of the exchanges to be maintained permanently after this international credit is spent and the productive power of the injured nations is fully restored, not only must tariff barriers be lowered, they must be completely abolished; otherwise it will be impossible for the nations injured by the war to sell sufficient of their products to buy the great quantities of foreign food, raw material and manufactured goods they will still need to buy and at the same time to pay interest and sinking fund upon the large amount of credit they now need in order to recover their productive power.

Should the nations resume their protective policy after the injured nations have been restored and are under the necessity of redeeming and of paying interest upon the credits granted, then the recovery of the exchanges will be only temporary and will inevitably be followed by another breakdown. For the permanent rectification of the exchanges and the safeguarding of the nations from economic ruin a policy of universal free trade is now essential.

Credit will restore the worlds' injured machinery of production, it cannot make good the labour of the gallant men whose lives have been lost.

Only by encouraging each country to produce the goods which its climate, its soil and its genius specially fit it to produce and by inducing all countries freely to exchange the products which the Creator has given them special powers to produce, will it be possible permanently to overcome the economic and financial effect of the great loss of life which the war has entailed, to restore the purchasing and selling power of all nations, and to bring about the recovery and lasting stability of the exchanges.

COLONIAL PREFERENCE

by

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a. THE PROBLEM.

Colonial history explains why protection assumes a somewhat different appearance when the overseas territory of various powers is involved. The object of the measures adopted is in this case first of all to promote the prosperity of the mother country, whereas they are applied, at least to a certain extent, in the colonies, these being considered as destined to furnish material profit to the ruling nation. That promotion of the national prosperity, to an equal extent, both at home and in the overseas possessions, might be the task of a colonial government, is an idea that has only evolved during the last half century.

The consequence has been that in proportion as the aims pursued assumed different forms, the measures adopted or recommended by protectionist circles also altered. We see a transition from measures which aimed at extracting as much advantage as possible from the colonies in favour of the mother country, irrespective of the economic consequences to this latter, to others which were recommended on account of the value which they might have for the prosperity of both the mother country and the colonies.

The stigma of the "colonial" character of the problem remains however — and this is also true in the case last mentioned — that it is not the interests of one definite territory which are exclusively considered when there is question of measures being

taken but that the interests of another territory are also thrown in the scales — and frequently to by no means an inconsiderable extent — such territory having more or less close political ties, but not forming an economic unit with it.

b. FORMS ASSUMED BY PROTECTION.

The oldest form in which “colonial preference” if we may be permitted to term it such, appeared was the monopolization of the trade to the colonies. Foreign nations and their subjects were entirely excluded from it, neither were the own nationals entitled to this trade, it being entirely in the hand of a chartered company.

After this form of restricting trade had been abandoned, there followed another period when importing into a colony was, by means of differential tariffs, made as difficult as possible for others in favour of the mother country, the duties on exports also being devised so that a certain preference was created for putting exports on the market of the mother country, and in which finally foreign shipping was subject to onerous regulations. The exclusion of foreign enterprise and foreign capital is connected with this period.

Finally the most recent form makes its appearance: the mother country and the colonies aim at supporting each other by means of their tariff policy and admit each other's products under the most favourable conditions possible, in any case under better conditions than those prevailing for foreign commodities. Various ways and means are imaginable in this case. So far as the writer is aware, the only ones which were actually applied were the differential tariff and the subsidizing of shipping lines under the national flag, the latter however only as fitting in a general system of supporting shipping under this flag. In the British Empire the creation of a federal union between the mother country and the colonies with the expressed intention of the members

mutual support by means of their tariff policy has been discussed, but the plan has not materialized.

c. CONSEQUENCES OF THE VARIOUS FORMS OF PROTECTION.

Owing to the peculiar aims underlying the adoption of any special colonial commercial system, it is worth while to investigate the consequences to both the mother country and the colony. The following is an attempt to do so successively for the various forms in which protection in relation to the colonies occurs. As the monopolization of colonial trade is a thing of the past, we shall not dwell long on it, in order to be able to devote more attention to the forms at present existing.

Monopoly has always a restrictive influence on the production of the colonies. In general this system excludes from the colonial territory everybody except the holder of the monopoly, and the participation of the colony in the world's traffic depends on the views of the monopolist. In so far as the latter is not interested in certain products, they do not come on the market. The colonial production can therefore, speaking generally, not apply herself to what can be produced in the easiest and most efficient manner to exchange it in so far as it is in the interest, of the colony for goods from elsewhere, but she will be obliged in the first place to apply herself to such goods, which are indispensable for the colonial society.

If the monopoly is restricted to a few commodities, the production of them is fettered. Whether the production of such goods is advantageous or not in the colony, only the interests of the holder of the monopoly will decide the extent to which the production shall be carried out. We find thus the same objections on a more restricted scale as were stated above in a general sense. Production cannot strike out fresh lines because the stimulus, the self-interest of the producer, does not exist or is very feeble.

On the other hand it cannot be argued that the interests of the monopolist will induce him to encourage production in the colony in order to obtain large amounts of the products. It may perhaps be possible for a short time that the monopolist will encourage production in a certain direction, but his predilections in this way will never be as strong as those of the producer under free trade, for otherwise where would be the profits for himself? In this case again the stimulus is less than under free trade, quite apart from the fact that, when the object was attained and production had reached a certain level, the interests of the monopolist might be not to encourage it any further, or in any case to minimize his own sacrifices to obtain the goods.

In the mother country the holder of the monopoly enjoys advantages which, at least if we suppose he takes a broad view of his own interests, are as great as his privileges warrant. But he lacks all stimulus which would urge him to see that his business is carried on as efficiently as possible. There is no competition to keep him wide awake, nor to incite him to adopt improvements; in a word his system of production will show a tendency to retain what already exists, and he will never be compelled to take into account to his utmost ability the desires of the consumers of the commodities he brings on the market.

Against the profits on the capital of the monopolist, we must put the fact that the remaining capital in the mother country is deprived of the opportunity of seeking investment in the colonies if it sees an advantage in doing so. The decreased opportunity of investing enfeebles the stimulus to save and to put the savings into fresh enterprises.

Merchants and those who deem themselves fitted for the purpose find themselves deprived of an outlet to their energy. There is only room for them in the colonies in the service of the corporation which possesses the monopoly.

The labour market in the mother country does not feel the

favourable effect of the offer of work in the colonies which may exist under free trade. The demand for labour in the mother country is finally less than if there is a call on the labour market from all kinds of trades connected with the colonial commerce.

If we sum up these considerations, we come to the conclusion that a colonial monopoly system, in proportion as it is more or less extended, impedes the development of the production in the colonies to which it applies, that it promotes prosperity only in a restricted circle — even though it be perhaps great prosperity — but involves much wider circles in adverse consequences, and that finally owing to both these circumstances, it has a restrictive influence on the world's production. In any case it prevents a rational distribution of labour conformable to the natural conditions for the production of certain commodities in the various territories, conducts trade along certain paths which are not determined by natural favourable factors, therefore hinders the distribution of the goods and in general obstructs the formation of capital.

Let us now consider the levying of differential duties and the preference given to shipping flying the national flag.

Owing to the levying of duties on imports into the colony according to a tariff which taxes more heavily goods of foreign origin than those imported from the mother country, the colony is compelled, in a certain sense, to satisfy its requirements in the market of the mother country. If we assume that the mother country and the foreigner can for the rest supply at the same price, the differential duty makes it possible for importers from the mother country to raise their prices by a little less than the difference in the duties. If the foreigner can supply at a lower price than the mother country, the colony must, as in the case assumed above, pay more for its imports by the difference in the duties levied. If on the contrary the mother country is able to supply cheaper goods,

then the merchants there are made a present of the full advantage of the difference in the duties levied over and above what they already owe to their superior position, whatever may be the reason of the latter.

The difference between the duties levied represents therefore the costs which the colony has to bear through being obliged to draw its supplies from a fixed market; it exchanges its products on a basis less favourable than under free trade by the amount of the duties.

The mother country finds enterprise within its frontiers stimulated to take up certain branches, the products of which can be placed in the colonies. If these are products for which the natural conditions are especially favourable, the branch is rewarded by greater profits than the natural conditions would bring it. Such branch of trade will therefore be expanded. If trades are concerned for which the natural conditions in the mother country leave but little scope, it becomes possible in spite of that fact to carry them on with profit. In both cases certain branches are therefore put in a more advantageous position than they would take under free trade.

On the other hand we have the fact, at least under certain conditions, that capital and enterprise are led into a direction which is not suitable to the natural conditions prevailing in the mother country. The result of this is that the position of enterprises which are created by this stimulus is perhaps precarious. They are not able to face competition with the foreigner from the moment it overcomes the duty which protects them. For this very differential duty removes the stimulus contained in foreign competition for business men to take care that their business remains up to date, that all possible improvements are adopted, in short that as much advantage as possible shall be taken of the natural conditions.

The advantage enjoyed, as we may now conclude, is therefore by no means unmixed. We can expect a displacement of the ten-

dency of production, no increase of production however and therefore no increase of the social income.

On the other hand the exports of the colony may be conducted by the differential tariff into certain paths. In this case it is not so much the contrary of what we have assumed above which takes place, viz. the favouring of colonial goods at the expense of those from other countries if put on the market in the mother country, but we must first of all imagine a pressure exercised on the colonies by means of duties or in some other way to put their exports on this one and only market to the exclusion of others.

The consequence is that the colony does not sell on the best market, but in the mother country. It therefore exchanges its goods on less advantageous conditions than it would under free trade. Its claims therefore also are made on one single market and its payments will consequently also take place via that market, although it may obtain the goods concerned from elsewhere.

In the mother country the trade importing the goods from the colonies and all connected with the sale, warehousing and further transport will certainly benefit. But here again what we have said above applies in a certain sense: it is not trade which originates from the natural conditions existing. The capital invested in and the labour spent upon this trade, are therefore employed in a manner which they would not be if they were left free. If the mother country is or becomes the natural market for certain colonial products, there are two possibilities, viz. that the commercial enterprises in question enjoy extraordinary advantages from the tariff regulations, or the exclusion of the very possibility of competition from abroad arising puts colonial interests in the background as compared with all the other interests entrusted to trade and in which competition is not rendered impossible.

It hardly needs to be demonstrated that the colonial producer comes off worse in these circumstances than if he can

market his products where he chooses. This system may certainly be profitable to the mother country but again the blessings are not unmixed. The trade is not compelled to look for new methods and improvements in order to keep the market interested in its products; it is sure of this portion of its business and will be inclined to show less interest for other branches which involve more risk. Consequently enterprise and elasticity, which create prosperity, run a grave danger of becoming weakened.

Let us now examine the preferential treatment of the national flag. There are several forms possible. Goods which are imported or exported under the national flag may be less heavily hit by the tariff than goods in foreign ships, and at the same time subsidizing of national shipping concerns may lead to the same result.

If shipping to the foreign country pays its way without assistance, there is in itself no advantage to the producer that shipping under a certain flag should be favoured above any other. Difference in duties can only result in the protected shipping companies falling behind their foreign competitors, or in their freights being somewhat lower, in the most favourable case their rates being lower than those of their foreign rivals by the amount of the difference in the duties.

If no national shipping to and within the colony were able to exist without subsidies, it would be a proof that capital and enterprise expected to make larger profits by seeking an outlet in another direction. If shipping thus came into existence through the difference in duties, displacement of capital and enterprise from one direction to another would have been achieved. The latter would be in themselves rewarded in about the same manner as before, but the social income would show no increase. On the contrary the advantages conceded to the national flag, in whatever form they might be, would have to be met from other parts of that income.

In the case when the subsidies to the national shipping

are intended to attract the commodities from the colony by preference to the market in the home country, the remarks made above are again applicable. Trade is then led in a direction which it would not choose of itself, the colony exchanges its products with the foreign country in a manner which does not strike it as being the most advantageous. We do not need to demonstrate that this is in general not desirable.

The objections which one might advance on regarding the matter from the point of view of the mother country proceed along the same lines. Capital and labour, in consequence of the support received, take a direction which they would not otherwise select, and if they did, the support granted encourages them to be less keen in facing competition and induces slackness as compared with other concerns. No real economic advantage, no permanent increase in the social income, is therefore brought about, but merely a change in the sources whence it is derived.

To avoid any misunderstanding, we would however like to make one observation. The payment to certain concerns for services rendered, whether made for calling at ports otherwise not frequently visited, or for keeping tonnage available, is not protection but simply a transaction, like so many others, which is of importance to both parties. If in a colony, with her common shortage of capital and consequently shortage of shipping on lines bringing in smaller profits or only promising such in future, such agreements are considered desirable, the interests of the community demand that such services should preferably be rendered by shipping under the national flag. It is certain that economically, taking the word in its narrower sense, a sacrifice will now and again have to be made, but on the other hand there are advantages of another nature. They will have to be weighed against each other in each particular case, but it would be wrong in such a case always to see protection.

In connection with these forms of protection it is advisable

to discuss another manner of colonial preference, viz. the system by which enterprise and money from other countries than the mother country are excluded by means of special regulations, or at least their actions in the colonies are hampered.

As regards the colony, it hardly needs to be proved that the resulting handicap on the exploitation of its natural resources or in opening up other economic possibilities represents a loss. In a country with a form of production as generally shown by colonies, in which production is by no means carried out to its economically possible limits and in which more especially lack of capital stands in the way of rationally exploiting the natural resources, there is need of as much enterprising genius as possible in order to conduct production into new paths. The opening up of branches which work for the world's trade, and which therefore involve the natives to an increasing degree in it, cannot but be to the advantage of increasing the production, i. e. of the social income. Preference now retains production more than necessary in the old ruts.

The struggle for life is rendered more easy for the business men in the mother country since the colonial territory is, as it were, reserved for them. Direct advantages will no doubt result. But again the question arises as to whether this advantage is unmixed. The exclusion of competition has an enfeebling action on the spirit of enterprise and the industries will be inferior to what they might have been, if competition had compelled them to be on the look-out for improvements. The scope of the business man and the inclination of the capitalist to run risks are diminished.

If therefore the supervision of foreigners and their admission into the colony extend further than is necessary for the maintainance of law and order, which are a *sine qua non* for economic development, there ensues a positive disadvantage for the colony, and a not unmixed advantage for the mother country.

We will now finally examine the mutual protectionist support of mother country and colonies.

We might sum up the questions relating to this form of protection in the following manner: Are the losses inflicted on any country as a consequence of a protectionist commercial policy neutralized, if other countries also bind themselves to introduce such a system, and they mutually agree to exclude each other's products from the measures adopted?

From the point of view of the world's commerce and the world's production the answer to this question can be brief. The countries which have contracted this mutual obligation will be compelled to arrange their production conformably to the requirements of the other contracting parties. Their production is therefore no longer regulated by the demand for the branches of production within each country for which the natural conditions are the most favourable. That means that there is no longer any guarantee that capital and labour will be employed in such a manner as to produce the largest possible yield. A world-wide production so that every country produces what can be made in the best and easiest manner is therefore hampered by this policy of mutual protection within a fixed political territory.

There arises however a second question, viz. what will be the consequences for each of the countries under this mutual obligation and for their prosperity?

If one imagines a very extensive territory for such a federation, the practical result of the idea approaches the adoption of free trade on a large scale. Within such a territory the commodities will be more and more produced in those parts where production can be carried on in the most economical manner and in the easiest conformably to the natural conditions. The more extended the territory and the more suitable it is, owing to its being situated in various latitudes with various climates and differing natural resources, to produce all the commodities required, and at the same time to provide con-

sumers for all these commodities, the greater the chance of such satisfactory results. We must nevertheless make the proviso that this very fact would demonstrate that the state of affairs would be still more satisfactory if no custom frontiers were admitted at all, and universal international free trade were decided on.

But the more one restricts in imagination the territory of the mother country and the colonies, in the same proportion the possibility of these satisfactory results is diminished. It is then that the question arises as to whether the goods which can be produced most easily can be placed in the other federated territories in the same quantities as they can be exchanged for other goods. And then the question crops up whether what is required can be obtained from these other countries, and if it can, whether it cannot be obtained on better conditions from outside.

As soon as one of these questions arises in connection with one of the federated territories, such territory exchanges its commodities under less advantageous conditions than if it were able to satisfy its requirements in a free market. That means therefore that its productive effort does not find its reward in the satisfaction of its requirements by commodities obtained in exchange for its products to the same extent as would be the case if the disposal of them had been entirely free.

On the other hand there is no weight in the fact that the other federated territories sacrifice to an equal degree the possible reward for their productive effort. There can therefore be scarcely any question of any mutual promotion of prosperity. Both sides are making a sacrifice in the hope of assisting the other, but in reality they would not be so well off when compared with the possibilities which would be opened up by free trade.

And again, especially for the colonies with their immature production, such restrictions mean a handicap on economic development. To a still greater extent than is the case with

other countries, we must in regard to the colonies be careful not to undertake anything that weakens the stimulus to the trade, enterprise and capital of foreigners, for these are the factors which must finally conduce to the solution of the great problem of colonial production, viz. the absorption of the productive energy of the native community in the world's trade and the consequent opening up of all economic possibilities.

This form of protection is therefore also to be rejected. And what is more, in so far as this system may have some partial success it shows how in its fundamentals the principle of liberty, if not restricted to a definite territory, brings about these satisfactory results. Can there even for protectionists be a more convincing argument against protection?

The general conclusion of these considerations can therefore but be that Protection, even when it assumes somewhat peculiar forms in conjunction with colonial policy, has only economically adverse results.

As in other spheres sound prosperity can only be created by Free Trade.

THE EVILS OF COLONIAL PREFERENCE.

by

E. G. BRUNKER, Esq.

Amongst the nations of the world there appears to be at present little discussion on the subject of differential tariff treatment of the products of a Colony by a Mother Country, and *vice versa*, except in the British Empire; and for this reason attention is here confined to a short examination of the position there. It is such to arouse the suspicions of all who wish to see the extension of Free Trade and international amity over all the world; because the demand for "a trade in preferences" appears to derive what small support it may receive solely from those who are imbued with Protectionist doctrine.

While Free Traders welcome any movement in any part of the world, whether in the sphere of tariffs or in that of any other artificial impediment to international intercourse, which tends to the removal of such restrictions, they have every reason for maintaining (1) that differential tariffs, where general protective tariffs exist, only tend to perpetuate the tariff system, and to delay the possibility of movement in the direction of Free Trade; and (2) that when protective tariffs do not exist (as is the case, with some recent exceptions, in the United Kingdom) a differential system is impossible until a tariff wall has first been constructed. So far from being a movement in the direction of Free Trade, the institution of a tariff preferential system leads in the opposite direction, and can therefore receive no support from any Free Trader.

On the first point, a tariff preference when conceded by one country to another must be assumed to benefit some section of the community to which it is granted.

It may of course injure some other section of the community: but if it did not benefit somebody there would be no reason for its existence and it would cease to exist. A grant of this sort once made cannot therefore be withdrawn without leaving a grievance behind it: and this fact tends to perpetuate the exception, and with it the general law, which in the case we are considering is a tariff. Thus if country A. grants to a colony B. a preference by allowing imports of a certain commodity therefrom either free or at a low rate of duty, while all imports of similar commodities from other countries are dutiable at a higher rate, it becomes practically impossible for A. to reduce or abolish the preference without annoying B. Moreover B. may consider that the preference is insufficient, and may demand that it shall be increased, which may be effected by A. raising the general tariff on that commodity. Where therefore protective tariffs exist, preference tends to perpetuate or even to increase them.

The second case is that of the United Kingdom. Till quite recently the tariff of the United Kingdom was purely a revenue tariff: that is to say the import duties in her tariff were selected solely with a view to their productiveness of national revenue, and they are therefore non-protective. It has always been admitted that a protective tariff is not economically a good revenue producer, and that a tariff intended to produce the maximum of revenue must not have the effect of diminishing the imports of the goods taxed under it. In recent years a preference has been granted (without any mandate from their British electorate) on this revenue tariff to certain foodstuffs imported into the United Kingdom from the British Empire abroad, the effect of which has been to diminish the revenue from those import taxes without benefiting the Colonial producers of the preferred goods to any material extent, if at all. This has led, on the part or at any rate some of the British Dominions abroad, to a demand for "real" preference.

The demand that the Mother Country should extend the

sphere of tariff preferences to the Empire abroad comes however almost entirely from British Protectionists. Their object is not the advantage of the Colonies — though they always declaim about the "Unity of the Empire" in their perorations — but the construction of a general tariff wall round the coasts of Great Britain to their own advantage.

Their policy of „Tariff Reform and Imperial Preference" has been three times submitted to the British Electorate, and three times defeated at the polls, in spite of the efforts of the great and wealthy protectionist organisations formed for the purpose of supporting it. The cause has been advocated by every method dear to the heart of the political propagandist; the results of adopting it have been painted in the most seductive colours; and still it has failed to capture the popular imagination. „Anti-Imperial" feeling does not exist in England. The Mother Country is as willing as ever it was to make sacrifices for, as eager as ever to hold the hand of friendship to, the Daughter States, whom she very properly regards as still largely under her protection; and this feeling has been intensified by the sacrifices of the Empire abroad during the War. The public have thought deeply on the Imperial Preference proposals which have been put before them and even forced on their attention in past years; and they have rejected them, not in a spirit of blind negation, or of disinclination to make sacrifices for the sake of Imperial Unity, if it can be advanced by such means, but largely because it is impossible to perceive even the germ of unity in the proposals for „Imperial Preference" which have been placed before them.

Imperial Preference involves sooner or later the re-introduction of a general protective tariff into the fiscal system of the Mother Country. You cannot have a differential tariff divorced from a general tariff. The industrial position which the United Kingdom obtained in the world under her Free Trade system did not grow by accident. While economists generally are not prepared to maintain that the results of protection as practised

in the Daughter States and in foreign countries are necessarily and without exception disastrous, they admit that the peculiar geographical and economic conditions of the United Kingdom differentiate it from all other countries in this respect.

There is nothing in the recorded experiences of protected countries to support the contention that protection could be made to fit the economic conditions of the United Kingdom; and nearly every economist who has dealt with the subject has defended Free Trade as being the best policy for the United Kingdom, whatever fiscal policy other countries may consider to be suitable for their special requirements.

Broadly speaking, the attitude of opposition to British Imperial Preference may still be fairly summed up in the words uttered by Mr. J. CHAMBERLAIN himself on March 25th. 1896, when he, at that time a staunch supporter of the Free Trade policy of Great Britain, discussed the possibilities of "uniting the Empire" by means of duties on all imports from foreign countries in order to give preference to Empire produce. He then used these words:

"It would involve in the case of the United Kingdom *a most serious disturbance of our trade*; it would be a great change in the principles which, for many years past, have guided our commercial policy. It involves the imposition of a duty, it may be a small one, but it is a duty upon food and raw material: and whatever may be the result of imposing such a duty.... *the tendency is to increase the cost of living which would intensify the pressure upon the working classes of this country*; and it would also have a *tendency to increase the cost of production, which would put us, of course, in a worse position than now in competition with foreign countries in neutral markets*. I see no use in shutting my eyes to the consequences of the proposition — which I desire to consider with an impartial mind. The first thing is to establish the facts, and the facts are as I have stated..... It is a very startling proposal for a Free Trade country, and I say that in its present

form it is a *proposal which it is impossible for us to adopt.*"

Imperial Preference then, cannot be made a reality without the imposition of protective import duties sooner or later on foodstuffs and raw materials entering the United Kingdom: and when Imperial Preference is demanded, it is demanded not, as is pretended, in order to confer advantages on the Empire abroad or to "unite the Empire", but to build a tariff wall round the Mother Country for the benefit of certain British producers at the cost of the general consumer.

There are people both in the United Kingdom and in the Dominions abroad who bring a charge of indifference to Imperial sentiment against Free Traders, quoting, for instance, Cobden's expressed view that "the Colonial system, with all its dazzling appeals to the passion of the people" was unsatisfactory in its operation, and ought "to be got rid of". This charge is made because the disputants appear to think that "the colonial system" is merely a synonym for "the Colonies". It was in reality something quite different.

The separation of the thirteen American States from the Mother Country, and the subsequent recognition of their independence, induced the fears of the British Government that, unless some tighter control was provided than actually existed, other Colonies, and perhaps Canada in particular, might be encouraged to cut adrift from the Mother Country. This led to a tightening up of the "colonial system", which was, in brief, the method of governing the Colonies from Downing Street without regard to native sentiment or aspiration. It was a system quite foreign to the British spirit; it was wasteful: it bred illfeeling and caused friction at every turn. It led to actual resentment on the part of the Colonies: and it was therefore thought necessary to devise some equipoise to it. The means adopted was the introduction of the tariff Preferential system, as a sort of "compensation" to the Colonies for the political restraints imposed by the British Government.

Anyone who is obsessed with the idea that the system worked satisfactorily and would form a basis for further adventures in this direction will change his mind after studying the "Report of the Select Committee on Import Duties," presented to Parliament in 1840. Those Britons who yearn longingly for the good old days of "differential duties", and speaking slightly, as one Colonial writer does in a pamphlet before me, of "the Cobdenites, and the Brightites, and the Manchesterites, and the parasites, and all other anti-preferential instruments, who deliberately abandoned the "system of Preference that obtained in England's treatment "of her Colonies at that time" would be well-advised to read this Report. It records that foreign merchandise which competed with Colonial was subjected to practically prohibitive import duties on entering the United Kingdom, while there was a long list of articles whose importation into the Colonies was entirely prohibited unless they were the produce of the United Kingdom or of some British Possession. A further comprehensive list of foreign imports into the Colonies was subject to such high import duties as to be in effect prohibitive. The articles of foreign produce which did not come under either of these categories could only be imported into the Colonial free ports in British ships, or in the ships of a country which vouchsafed special advantages to British trade and shipping within its dominions. No British produce was allowed to be carried to the Colonies, or Colonial produce to the Mother Country, except in British or Colonial ships. The Colonies set up no tariffs against goods from the Mother Country; the Mother Country gave a preference of either the whole duty, or a considerable part of it, to goods from the Colonies, not only to food, but to raw materials, and to a certain extent, to manufactures.

In order to avoid payment of these high duties foreign traders in many cases resorted to systematic evasion. For instance cargoes of foreign coffee were sent, not only from

Brazil, but even out of bond from England, to the Cape of Good Hope, whence the coffee was re-exported to England and admitted under the preferential rate of duty. Similarly cargoes of timber were sent from the Baltic to Halifax, and thence re-shipped to England as Colonial timber, the remission of 50s. a load thus obtained making the transaction a very profitable one for the timber exporter.

The evidence taken before the Committee abundantly proved the burden laid both on the Colonies and the Mother Country by these "differential duties", the restraint thereby imposed on British shipping, the encouragement afforded to smuggling and fraud, and the friction resulting, not only between different parts of the Empire, but between them and foreign countries. The Committee recommended that as speedily as possible the system of such duties and of all trade restrictions should be removed, believing that such a course would abolish "multitudinous sources of complaint and vexation," and "consolidate the great interests of peace and commerce."

The Colonies found that the "ties" by which they were thus bound to the Mother Country were fetters, preventing all possibility of advance in the direction of world-trade. But the disadvantages were mutual, for the ties were equally galling to the Mother Country. Moreover history fails to record that the gradual abolition of the system between 1840 and 1860, when the last preference, on timber, was abolished by Gladstone, was attended by any resentment or remonstrance on the part of the Colonies; and it certainly was gratefully welcomed by the British public, advancing as it did step by step with the abolition of protection. Indeed the repeal was probably what the Colonies most needed, for it threw them on their own resources, and set them free to work out their own industrial and political salvation, as they have not failed to do. And as the trade nexus was loosened, the ties of blood and sentiment between the Mother Country and the Dominions abroad have only become stronger, as the history of the last decade has made clear.

Plainly then, whatever be the view of the British Protectionist, the policy of Free Trade has not tended to "dissolve the Empire." Indeed the disintegration of that Empire in those bad old far off days of Preference seemed considerably nearer than it does now. Nobody, either in the United Kingdom or in any part of the Empire abroad, however keen a "preferentialist" he may be, who really understands the scope and results of the "differential duty" system dealt with above, can honestly ask for its repetition.

Reference is made above to the difficulty of withdrawing a tariff preference once it has been granted by a mutual reciprocal agreement. In the case of the United Kingdom the difficulty of granting a preference of any material value to the Empire abroad, is intensified by the divergent interests of her many Daughter States. Even if, as a necessary preliminary to the grant of preference to them, the Mother Country was so ill-advised as to impose a general tariff not only on manufactures but on her imports of foodstuffs and raw materials, that would be only the beginning of her troubles. A Preference on wheat might benefit Canada, India and Australia, but not equally. Hence might arise differences between these countries individually, and between them all and the Mother Country. Even supposing, at such a cost, a preferential system could be devised which would appear to be, at the moment, mutually satisfactory — a contingency which in this imperfect world would seem impossible of realisation — how long would it continue without agitation by one or other of its recipients for its reconsideration and increase? Neither in practice, nor even in theory, does it seem possible so to maintain the delicate adjustment of the more or less conflicting interests of the various British Dominions as to give to each a proportional advantage under any conceivable reciprocal trade agreement. The effort to obtain and maintain such adjustments would have to be subject to frequent revision and perpetual bargaining. Such conditions do not appeal to the majority of Britons as affording

a basis for the formation of friendly and permanent "links of Empire". Rather is there seen in them the introduction of a disruptive and dangerous principle into Imperial relations such as does not now exist.

Further, the situation so created by the adoption of an "Imperial Preference" policy would be still further complicated by another factor. For the necessary general United Kingdom tariff is not proposed merely to be used as a basis for the completion of reciprocal preference agreements with the various British Dominions. It is also urged as a means of bargaining with Foreign States, with a view to making reciprocal trade agreements with them also. The prospects of success in this direction, apparently somewhat remote, would still be further limited, and indeed, largely controlled, by the nature of such inter-Imperial agreements. Having, as we assume, performed the difficult task of completing a Preferential agreement, say with Australia, on terms which for the moment appear agreeable and profitable to both parties in the transaction, the Mother Country will be estopped, in dealing, say, with Argentina or Denmark (which send her commodities of a similar nature to those which Australia sends), from making any concessions which might diminish the preference already granted to Australia. To that extent her hands will be tied. Moreover, it must be remembered that the hands of Australia would similarly be tied in the not improbable event of her finding herself at some future date in a position to open up negotiations for reciprocity with some country other than the Motherland; for the Preference granted ex-hypothesi by Australia to the goods of the Mother Country must not be impaired.

Such complications would undoubtedly lead to a most unsatisfactory and dangerous condition of affairs within the British Empire. They would involve, for instance, the continual and watchful scrutiny by the Mother Country of the fiscal arrangements made or contemplated by Australia; and the same anxious scrutiny by Australia of those made by the Mother Country.

They would thus lead inevitably to a mutual interference with the fiscal freedom of both parties, which now stands unquestioned. An Imperial "partnership for profit" on the lines indicated, extending not merely to Australia but to all the British Dominions, whose trade interests are widely different not only from one another but from those of the Mother Country, would tend continually to provoke friction and misunderstanding.

The advocates of Imperial Preference, in assuming that all that is necessary for the arrangement of a complete and satisfactory Preferential system between all the parts of the British Empire is the establishment of a Protective Tariff in the Mother Country, overlook the fact that though each of the great British Self-Governing Dominions has a high Protective tariff, they have absolutely failed to come to any mutual understanding for tariff reciprocity between one another except in a few instances and on a most limited scale. For more than 30 years Canada and Australia and New Zealand have tried and tried in vain to negotiate reciprocal preference agreements amongst themselves. The negotiations have always broken down for reasons which are readily understood by Free Traders, who have learned to appreciate as it deserves the cupidity and selfishness of the Protectionist creed. It was found that each party in the negotiations stubbornly endeavoured to obtain from the other what the other refused to give; and that the most that one party was prepared to offer was useless to the other. The failure of such negotiations shows the impracticability of carrying them out, and dissipates the theories of those who would have the Mother Country place her trade in fetters as a preliminary to the entirely hopeless project of thereby obtaining the means of forging "links of Empire," which would not gall.

Moreover the desideratum of the British preferentialist of a world divided into a Tariff-surrounded British Empire, and an external group of foreign nations whose products are to be penalised on entering every part of the Empire, is an aspiration

which must be utterly rejected by everyone who aspires to world peace. Any policy which encourages or necessitates the erection, maintenance or extension of such a tariff system is a danger to the world. Such a danger lies not only merely in the British Imperial Preference proposal, which would necessitate a return to Protection by Britain after 70 years of Free Trade: but to a lesser degree in each and every Preferential scheme in the existing tariffs of the world, because while it exists the return to Free Trade by the countries concerned, such as all Free Traders desire, is thereby rendered impossible.

COLONIAL PREFERENCE

by

G. SCHELLE, Esq.

Every system of *preference*, whether in favour of the home or the colonial production, is a system more or less extended of exclusion of foreign trade, and hence possessing all the vices of protection, in the front rank of which must be put the danger of creating and maintaining insecurity.

In the past most of the great wars had as their principal or accessory cause commercial jealousy as depicted by DAVID HUME.

It is what happened every time England and France fought against each other in the XVIIth, XVIIIth and XIXth centuries. ¹⁾

All the treaties which terminated these struggles mention cessions, exchanges, abandonment of colonial territories, which to a certain extent served as war indemnities.

Undoubtedly commercial jealousy was at that time kept alive by mercantilism. The colonies were considered as levers to make the balance of trade favourable by means of the markets they offered for the products manufactured in the

1) The War of Succession of England or the League of Augsbourg (1688-1699) terminated by the Treaty of Ryswyck;

The War of Succession of Spain (1701-1713) terminated by the Treaty of Utrecht;

The War of Succession of Austria (1740-1748) terminated by the Treaty of Aix-la-Chapelle;

The Seven Years War (1756-1763) terminated by the Treaty of Paris;

The American War of Independence (1776-1783) terminated by the Treaty of Versailles;

Finally the wars of the Revolution and of the Empire terminated in 1815 by the Treaty of Vienna.

home country and the raw materials which they were to supply cheaply.

Jealousy is incompatible with the present economic doctrines, but the peoples apply these doctrines only exceptionally; from the commercial point of view, the democracies are led by the private exclusive interests of a few capitalist, industrial or agrarian magnates. Many political personages, many diplomatic and administrative agents, are led by party views or prejudices in which commercial jealousy has its place; the former exert pressure on their governments, the latter compromise them. So long as commercial jealousy is not dead *de facto* and in principle, economic conflicts will be latent.

We remember the culpable and ridiculous incident of Fachoda in 1895, an incident which very fortunately had no disastrous consequences.

We know what grave difficulties were created when France established her footing in Morocco.

Taking a more general view, careful observers are of the opinion that economic interests, that is to say commercial jealousy, were the real cause of the war of 1914; the Treaty of Versailles, for that matter, like the treaties of former days, stipulated cessions of territory.

Perhaps some day or other a State will wish at any risk to acquire markets outside Europe which this jealousy will bar it from. Nobody would venture to assert that difficulties similar to those of the past will never recur.

I am not referring to *reprisals* which are generally provoked by customs restrictions; their dangers and their role as a double-edged weapon are well known.

It seems evident that if, on the contrary, the possession of colonies involved neither privileges nor restrictions, if foreigners could do business in them without coming into collision with preferential tariffs, if, in other words, the policy of the *open door* prevailed, one of the principal sources of international conflicts would be dried up. No sensible government would

try to seize territories where its merchants could find markets without its having directly to provide the funds for maintaining such territories, and at the expense of its own internal security.

The open door without restrictions, without protective duties, without preference for the flag, appears as if it is bound to provide solid guarantees for the maintenance of the peace of the world.

These guarantees would be safer than disarmament which, in the present state of affairs, cannot go beyond certain limits without constituting an act of imprudence.

They would be more efficacious than associations of nations, which are purely moral since their decisions are not backed by sanctions.

The régime of liberty is already contained in some international conventions and has given rise to no complaints.

The arrangements concluded between France and England in regard to the basin of the Congo ensure free access for ships and prohibit monopolies and privileges. For Dahomey and the greater part of the Ivory Coast, the Convention of the 14th June 1898 also provided for equality in treatment. In a more general way the Treaty of Algeiras and the Convention of the 4th November 1911 ¹⁾ established the policy of the open door in Morocco. a fact which has not prevented the development of this colonial region. Its exchanges with the various countries of Europe and especially with England, are constantly increasing and those with France are augmenting still more.

There is another remark which we should make. So long as the economic guidance of an Empire remains in the hands of the central government, it is from this latter alone, from

¹⁾ Art. 4. The French Government declares that, firmly adhering to the principle of trade liberty in Morocco, it will not countenance any unequal treatment, neither in establishing customs dues, imports and other taxes, nor in establishing railway tariffs, river transport tariffs or dues on transport by any other means and especially in all questions of transit.

its intolerance or its clumsiness, that conflicts can arise. The responsibility falls on it alone.

The colonial systems may be classified as follows:

1. *Complete subordination* of the colonies to the mother country; this system always involves preferences in favour of the home country for imports into the colonies which are given the hypocritical name of *Colonial Pact*, although the colonies have never taken any part in fixing it.

2. *Assimilation* of the colonies into the mother country as regards tariffs, that is to say a zollverein, a customs union, whether contractual or obligatory, between the various parts of the Empire over against the foreigner.

3. *Partial subordination* of the colonies to the mother country, the latter approving the tariffs drawn up by each colony.

4. *Complete liberty of the Colonies* as regards their tariffs. It is evident that in this case the source of possible frictions with the foreigner are transferred to the colony, that further economic difficulties, precisely resembling commercial jealousy, may arise between the mother country and the colony, and that finally this double danger increases with the importance and the obstinacy of the colony.

Turgot was able to say prophetically in the middle of the XVIIIth century "Colonies are like fruits: they fall from the tree when ripe; they act as Carthage did and America will do".

The identity of manners and language between the colonists and the mother country is not sufficient to ensure indefinitely the political union between the various parts of an empire. It is useful and proper to limit the powers of the mother country, but it is necessary also to restrict the rights of the colonies in affairs economic.

The course of protection is known. The protégés compete under the shelter of the protective duties and therefore consider them insufficient and constantly demand that they shall be raised. The demands of a protectionist colony may hence

become intolerable; it is better to nip them in the bud than to allow conflicts to arise.

As regards the French Colonies, none of them has yet any political and industrial strength; the system that governs them is, for all, the almost absolute dependence on the mother country. In order to place them under a system of trade liberty, the claims of the home manufacturers will have to be overcome.

In 1860, when France adopted a liberal economic policy, such a point had been reached: the colonial system had been brought into harmony with the idea which had inspired the commercial treaties. The colonies were no longer obliged to trade exclusively with France and were no longer under the obligation to effect their transports under the French flag. They possessed moreover a certain customs autonomy and were able to fix their tariffs subject to the approval of the central government.

But when the protectionists became the masters in 1892, this semi-liberal régime was completely changed. The colonies, considered as a part of the national territory, were placed under the system of *assimilation*, that is to say they were obliged to purchase in France the commodities they needed, while incurring heavy transport costs, or to pay high customs duties to obtain the same commodities in a more adjacent, but foreign, country.

The result was an increase in the cost of living in the colonies and a rise in the cost price of their products.

The mother country exploited the colonies for the benefit of a few of its manufacturers and prevented or delayed the prosperity of the colony.

It was further impossible to establish practically complete assimilation for all the colonies; it only exists in the case of Algeria. The French colonies differ too much from each other owing to their geographical situation, their population, their products, their requirements, for uniform tariffs to be applied.

It was necessary for fiscal reasons to put duties on colonial products which have none such in France, and for other products it has been necessary to modify the rigours of the home tariff.

The substitution of a system of liberty for this spurious and complicated organization is urgent in the interests of the colonies, and consequently in the interests of the mother country whose prosperity is closely united with that of the empire. This latter has to-day a population of 100 millions, more than half of which are in the colonies.

The system of liberty is also the only one which can bring about the greatest economic advantages. Is there any need to tell you that it is not the nations which trade with each other, but individuals? The home or colonial producers may try to identify their private interests with the general interests of their country, these private interests, however worthy they may be, will never be anything but a portion, and in most cases a very small portion, of the interests of the entire nation. Of the profits that they obtain from the customs protection, these protégés pay almost nothing into the public exchequer, and they make the consumer pay the whole or a part of their profits.

On the contrary, owing to the competition and cheapness brought about by the open door, consumption and therefore production are made easier.

To sum up, whatever may be the point of view taken, whether political or economic, the open door policy appears to be the only one able to give proper guarantees for international security, to ensure the prosperity of the colonies and the mother country, and to regulate their mutual relations without fear of subsequent conflicts.

TO WHAT EXTENT MIGHT FREE TRADE REMOVE THE CAUSES OF FRICTION BETWEEN THE NATIONS

by

Prof. Dr. J. P. A. FRANÇOIS.

That protection is a danger to the world's peace and that the hampering of free trade constitutes one of the principal causes of the war was demonstrated times out of mind long before 1914. And was it not self-evident? As the idea spread more and more that the organization of the community of nations was a *sine qua non* for the prevention of wars, a collision was inevitable with the movement to divide artificially what nature had not divided, and to abolish the advantages which mankind was able to derive from the division of labour rendered possible by the cooperation of the peoples, and to reserve what was a prime condition of existence for a number of nations for those who had managed to secure control of it. "A great folly, and a contradiction too", HERINGA called it, "to improve the means of communication, to bind peoples faster, with the aim to dispose of the products of the world for every part of the world. and to build at the same time on the imaginary frontiers a tariff wall in order to divide the peoples, a high barrier of import duties in order to try to prevent the importation of those very articles from foreign countries." And efforts were not abandoned to prove with ever increasing conviction that protection was the principal cause which had led to friction among the nations and would always lead to fresh collisions, but that Free Trade on the other hand would be the best guarantee for the maintainance of peace.

The war ensued, a war which to a great extent owed its

origin to the economic factors which had been pointed out by free traders as the dangers of the protectionist system. Have we profited by this lesson, is protection taboo? Far from it; we only need to cast a glance into the most recently issued Orange Paper to perceive the danger. "Exports abroad are experiencing steadily increasing difficulties. The frequently unfavourable balance of trade induced many governments of our former markets to prohibit or ration the imports of articles which are not of prime necessity. In other countries again they proceeded to increase considerably the import duties, increases which were partly due to fiscal reasons, but were partly adopted with a view to protect the home industry. From various quarters the Department of Foreign Affairs receives petitions to take steps with the foreign Governments in order to keep existing markets for Netherlands trade and Netherlands industry. Inter alia démarches were undertaken with the German Government in regard to the imports of fresh fish, herrings, bloaters, anchovies, oysters, flower bulbs, cocoa, zinc white, salad oil and many other more or less important commodities. The Italian Government prohibited the importation of various commodities, inter alia. liqueurs, incandescent electric lamps and cocoa. The various Scandinavian Governments have passed restrictive measures in regard to the imports of several articles. The Spanish Government recently denounced their commercial treaties in order to be able to increase various import duties which had been fixed in the treaties. The import of goods in the Balkan States is gradually being hampered by Government measures. In regard to the imports into France also, where they still have the power to impose import duties by decree, the Government is on the alert in order to endeavour as far as possible to promote the interest of trade and industry in the Netherlands. The importation of Dutch liqueurs and related articles is experiencing great difficulties in several countries of Europe".

It is evident that the system of protection is not being abandoned, the advantages of free trade are not being recognized. Hobson and others had during the war predicted a revival of protection, as the countries impoverished by the conflicts would not be willing to abandon the revenues they could obtain under this head. But, one may ask oneself, if protection really has such a fatal influence on the maintenance of the world's peace, is it then fate that induces the states for the purpose of covering the losses of war to have recourse to means wherein are necessarily the germs of a fresh conflict? Is the shortsightedness of the states then so great that, in order to obtain immediate advantages, they shut their eyes to the consequences which this must involve? Before passing censure on this policy, we ought to examine whether in the light of the present circumstances, after the transvaluation of all values which the war has in so many respects brought about, we can still look to free trade as a feasible means of preventing international friction.

In the first place there is the argument of "interdependence": free trade, according to this, would by increasing the dependence of the nations on each other, make the waging of a war more difficult and hence reduce the number of wars. How naïf it now seems to us to expect to convert many states to free trade by means of such an argument. For what more frightful bogey is there at the present time than the prospect of being dependent in war-time on others for the supply of materials needed to resist the enemy? Yes, it is indeed a beautiful future seen in the imagination: the nations so absolutely dependent on each other that not one of them will dare to sever the ties of friendship with another under penalty of a shortage of the indispensable necessities of existence. But is it really expected that many states will be willing voluntarily to put themselves in this position of dependence? In this case, too, everybody will want to give precedence to his neighbour: *Que messieurs les assassins commencent les premiers*. What

state will be willing to risk the danger of increasing its dependence on the foreigner without any guarantee that its example will be followed, without any certainty that other states will not take advantage of this dependence for their schemes for power? At a time when "the war has shown even to the blindest that military power and economic strength are exceedingly closely interwoven, that wars may be lost or won, not only on the battlefield, but also in the school and laboratory, the mine, the mill and the factory", (J. ELLIS BARKER) economic imperialism is strengthened and the argument of the increasing interdependence has turned against free traders. There is more than this. Interdependence becomes, from the point of view of national safety, still more dangerous, if, as a war breaks out, a country is cut off not only from the enemy, but also from those of the other countries which had been supplying it up to that time. It is therefore the free trader's business that international traffic should be as little hampered as possible in war-time. Complete "freedom of the sea" in war-time on the same footing as in peace, may be a utopia, yet it would be in the interests of free trade to reduce to a minimum the restrictions imposed on international trade in war-time. And it is precisely in this respect that we see dangerous symptoms. The recent war has given a hitherto unknown extension to the idea of contraband; the economic blockade made its entry sanctioned by the League of Nations and will henceforward act on the states as a stimulus to develop as much as possible in the direction of autarchy. A wrong view of neutrality, a consequence of an attempt to derive the neutrality regulations in a logical manner from an a priori conception of neutrality, led even to the theory that neutrals were obliged to prohibit the export or transit of goods which might be made serviceable for military purposes. Such tendencies as these necessarily led to states, which did not wish to deliver themselves bound to the mercy of the first usurper who, scorning the free trade principles,

has applied himself to prepare thoroughly for war, being unwilling to sacrifice their national safety to such principles.

The increased desire for less dependence on the foreigner has done anything but put a check on the greed for acquiring colonial territory which is such a fruitful source of international friction. NORMAN ANGELL has made well-intentioned efforts to prove that the possession of colonies does not involve any advantages worth mention. This applies neither in war nor in peace. The advantages of possession in war-time are of various kinds; in the first place the population of these territories provides reinforcements for the home contingents. How great was the share of the British and French colonial troops in the victory of the Allied arms! And in the second place the overseas possessions provide military points d'appui which may be of the greatest importance for carrying on a naval war. The appearance of the submarine has greatly increased the importance of scattered harbours suitable for submarine bases. In this respect again a false conception of the neutrality which leads to prohibit any use of neutral ports by a belligerent involves a danger; states for whom it is impossible to carry on the war without points d'appui are thereby driven to acquire the necessary colonial territory by force. The point of view of the Netherlands Government in the recent war was a proper one, when it did not extend to the colonial ports the absolute prohibition of the use of Netherlands ports for the purpose of taking food and fuel on board. In the third place only actual possession gives the belligerent the assurance that during the war the colonial products so necessary for military operations — and we only have to think of petroleum which appears to be destined to play an exceedingly important part in future naval wars — shall be exclusively for their own advantage.

Then there are the advantages which possession secures in peace; the advantage of being your own master in the colonies and having your own legislative system and officials who speak

the mother tongue and can direct production into the chosen channels. But above all the advantage — and perhaps this is the most important factor which NORMAN ANGELL has not taken into account — that only by having the colonies in its own hand can a state be certain that its nationals and its trade will never be excluded. A state may renounce the acquirement of colonial territory, if it is assured that the territory under another suzerainty will also remain freely open to it; if it has not the assurance of this open door, if it must be prepared for the territory being closed as soon as the state in whose hands it is considers such an action desirable, the state in question will then assuredly ask itself whether, if the opportunity of acquiring colonies presents itself, it ought to let the chance slip by.

Development and protection of the home industry for fear of warlike intentions on the part of the foreigner; desire for colonies of its own, partly as a precaution in case of war, partly for fear lest the open door should not always be guaranteed; the setting up of tariff frontiers as a reprisal for similar measures abroad; we always move along the same lines. However correct the free trade principles may be, however much they may be able to diminish the causes of friction among the nations, their practical realization is only to be expected if we can obtain guarantees for their general and permanent application, and for a peaceful cooperation of the nations. All attempts to carry out these principles will come to grief on the impossibility of achieving this.

Must we therefore abandon as being useless our efforts to realize the principles of free trade? The answer must in our settled opinion be in the negative. For now a prospect of success has been opened which has been lacking up to the present. I refer to the League of Nations. Many will perhaps ask what is to be expected from a League of Nations which, however well-intentioned it may be, has already shown its powerlessness, and seems rather destined to come to an inglor-

ious end than to realize the illusions which were cherished at its foundation. Although the League of Nations may for the present be powerless and be traversing a difficult period, it may perhaps be entirely reorganized, but it can no longer disappear. By making a beginning with the realization of the League of Nations idea, a step has been made on the road of evolution which cannot possibly be retraced. The League of Nations has, however, had the misfortune of having its strength overestimated at birth and, instead of seeing in it a means of centralizing international discussions from which a powerful organization for international cooperation might evolve, it has been looked upon as a miraculous means of restoring to perfect international order a world which is in disorder, economically totally disorganized, mutually divided and embittered, and in which nationalism had risen to unknown heights. This ridiculous overestimation, against which warnings had been issued from various quarters at the very commencement by people who were at that time accused of lack of idealism, has been avenged. How much more would have been achieved if the Pact had been confined to practical plans capable of execution, instead of blindly supporting idealistic resolutions, which, it ought to have been foreseen, were not ripe for realization.

But the idea of a League of Nations, the idea of combining the States into an organized association, has too much vitality not to survive the tactical error committed at its creation. We may therefore refer to the League of Nations when discussing the fate of the principles of free trade. And we can only come to this conclusion: that just as free trade cannot be realized without the League of Nations, in the same way a League of Nations can only answer its purpose by means of a general application of the principle of free trade. From the very beginning the Founders of the League have recognized the importance of free trade as a means of attaining its aims. But in this case at least the fault of immediately overestimating its strength has not been committed: free

trade was not imposed on the members of the League as an obligation, but was confined to the extremely cautious Article 23, reading: "The members of the League shall take the requisite measures in order to guarantee and to maintain the freedom of traffic and transit, as also the just treatment of the trade of all the members of the League". "Il est manifeste", the Allies declared in their note to the German delegation at the Conference of Versailles, "qu'il faut interpréter les déclarations du President Wilson relatives à l'égalité des relations commerciales comme se rapportant au statut du monde et qu'il les faut considérer comme applicables seulement à un état de choses où les conditions normales des échanges commerciaux sont rétablies dans le monde. Dans l'intervalle, il est nécessaire d'établir un régime purement transitoire qui diffère, il est vrai, de celui qui est envisagé comme statut définitif, mais qui n'est en aucune manière en contradiction avec ces principes". The Transport Conference at Barcelona proceeded along the same lines; recognizing "qu'il importe de proclamer et de régler le droit de libre transit comme un des meilleurs moyens de développer la coopération entre les Etats", it has drawn up a transit treaty which aims at ensuring free transit, hampered as little as possible by duties and equal for all. It further expressed the desire that the League of Nations should convene its members as soon as possible in order to draw up fresh regulations as to the rights and obligations of belligerents and neutrals, in regard to transit in war-time. Moreover it sketched out a convention relating to the waterways which guarantees the freedom of navigation and absolutely equal treatment of the flags in international waters. Some would have gone still further: Brazil and twenty-one others, although they were for the most part not very important states, requested "que l'attention du Conseil et de l'Assemblée de la Société soit attirée sur l'intérêt qu'il y aura à préciser le plus tôt possible les principes destinés à assurer l'équitable traitement du commerce".

As regards the former German colonies and the other territories surrendered which formerly belonged to the Central Powers, and which are to be governed by "mandatories" of the League of Nations, the League has already done more for free trade. In the case of the Colonies in Central Africa, the so-called B. Mandates, it is expressly prescribed in the Pact itself that: "*le mandataire y assume l'administration du territoire à des conditions qui assureront également aux autres Membres de la Société des conditions d'égalité pour les échanges et le commerce.*" In accordance with this, Article 7 of the draft mandate for British East Africa, for instance, stipulates: "that the mandatory shall ensure to all nationals of States Members of the League of Nations, on the same footing as to his own nationals, freedom of transit and navigation, and complete economic, commercial and industrial equality". Although in the A. Mandates the freedom of trade may not be expressly mentioned, it is nevertheless accepted in the draft mandates of this category. That for Article 11 of the draft for Mesopotamia reads: "The Mandatory must see that there is no discrimination in Mesopotamia against the nationals of any State Member of the League of Nations (including companies incorporated under the laws of such State) as compared with the nationals of the Mandatory or of any foreign State in matters concerning taxation, commerce or navigation, the exercise of industries or professions, or in the treatment of ships or aircraft. Similarly, there shall be no discrimination in Mesopotamia against goods originating in or destined for any of the said States, and there shall be freedom of transit under equitable conditions across the mandated area".

Finally in the case of the C. Mandates — those which are intended for territories "*qui ne sauraient être mieux administrés que sous les lois du mandataire, comme une partie intégrante de son territoire*" (Art. 22, clause 6 of the Pact) an effort has been made — especially in the case of Japan — to make the demand expressly for the maintenance of the open door. In this connection we may recall the declaration of the American

Secretary of State Colby in the note of the 20th November to the British Government relating to the American petroleum interests in Mesopotamia:" I need hardly refer again to the fact that the Government of the United States has consistently urged that it is of the utmost importance to the future peace of the world that alien territory, transferred as a result of the war with the Central Powers, should be held and administered in such a way as to assure equal treatment to the commerce and to the citizens of all nations. Indeed, it was in reliance upon an understanding to this effect, and expressly in contemplation thereof, that the United States was persuaded that the acquisition under mandate of certain enemy territory by the victorious powers would be consistent with the best interests of the world."

Thus the League of Nations opens up fresh perspectives for the carrying out of the principles of free trade in cases where the victory of these principles would otherwise necessarily be despaired of. Only if included in the frame-work of a League of Nations is salvation to be expected from free trade, not to remove the causes of friction between the nations, for causes of friction will always exist apart from trade questions, but at least to diminish them.

It is now the duty of free traders not to flag in the battle for their principle and to prevent the increased efforts towards protection from poisoning the atmosphere which is necessary for the development of the League of Nations. May they be inspired with the conviction that a powerfully united and efficiently organized Association of States is a condition of free trade.

TO WHAT EXTENT WOULD INTERNATIONAL FREE TRADE REMOVE THE CAUSES OF INTERNATIONAL CONFLICTS?

by

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International Free Trade, to which we are all warmly attached but which at the present time especially has still many opponents, has become a very difficult matter, as you know, owing to the numerous artificial and protectionist walls that have been erected between the various states. At the present time the principles of international trade liberty have never been more in danger than they are at this moment, one of the most critical that the economy of the world has passed through for a very long time. More than ever must free-traders, convinced of the benefits of their commercial and economic principles, close up their ranks not only in the countries where they are in the minority, and where the reins of power are still in the selfish hands of the protectionist party, but also in those states where the adherents of free trade can count on a reassuring and reliable majority. In the van are the various governments on the point of taking grave and prejudicial measures in order, it is alleged, to meet the demands of public finances, to make up the ever increasing deficits of the war and the post-war conditions, and to give, alas, a wider scope to the protectionist pressure of a privileged minority, among which are the farming class who have in general grown rich of recent years. They are followed

by a group of selfish industrial magnates and a few economists, whose idea of a sound and beneficent commercial and economic policy is still swamped by their blind and wrong-headed protectionist convictions, who are animated by no other desire than to drown foreign trade with their red tape of export and import embargoes, with increases in the import duties and administrative fees of every kind encumbering foreign trade uselessly but not innocuously, for it alone must produce enormous regular returns and maintain them. But when creating these artificial barriers hostile to a return to normal vital conditions, it would appear that the authorities have not yet been able or willing to understand the adverse and irreparable consequences which this deceptive and unjust prohibitive policy, led astray by the evil principles of protection, will bring about. For it is certain that the more the natural free trade in commodities is restricted, the more we shall recede from financial, economic and commercial stability, and the more we shall create economic differences and will add fuel to the causes of international conflicts. This blind and absurd tendency to protect a minority of the national economy to the detriment of the majority, and to put the latter at the mercy of a favoured minority, appears indeed to suffer no check in its progress. Indeed every day we hear, not without sorrow, of fresh government decrees which burden more and more foreign trade and the free trade in the world production which every country, whatever its productive capacity may be, greatly needs owing to general economic laws.

Whither will these selfish protectionists lead us? When will these times of hate and mistrust come to an end, when will it be possible to remove definitely the economic differences between the nations and the causes of international conflicts which naturally result from such a protectionist policy?

The hour is a grave one, grave indeed. The hour has struck when free-traders must exert all their strength to

hold out in this storm which is at one and the same time commercial and economic, financial and political.

Now the discussions in the last Free Trade International Conference held last year in London clearly showed how useful international free trade will be in order to restore the economic equilibrium of the world and to bring about lasting peace among the nations, and I think there is no need for me to repeat what men more competent than myself put before you during these international deliberations. Restricting myself to the business on the agenda, I should like to treat more especially the question as "To what extent would International Free Trade remove the causes of international conflicts?" and, I hope, treat it effectively. I should therefore like to demonstrate to my fellow free-traders how such removal can be brought about in a satisfactory manner both for the sake of universal peace and of the economic strengthening of the world.

As you have been able to observe from the communiqués relating to the financial, economic and political discussions of the League of Nations which took place last year at Brussels, a new era after all appears to be dawning in the official circles of this Universal Association, an era which is undoubtedly able to roll away the gloomy clouds that still tower up on the horizons of humanity. At last they appear to be deciding to take into account the important part which *international free trade* will be called upon to play everywhere in affairs commercial, economic, financial and even political, in order to restore a proper and equitable stability in the world's economic situation and a lasting universal peace so ardently longed for by the majority of the nations.

It may also be considered fairly certain, that if the League of Nations can survive and perfect itself in the way desired, a consummation we all devoutly wish, it will be able to play a magnificent role in the future commercial international policy and in the economic history of the world, a role which

the United States of America and other civilized peoples desire to make still more fruitful by their speedy adherence to the League of Nations. We shall then be able to discern a future in which free trade will take the place it merits.

Following this line of thought and keeping to the business before the Congress, I have worked out a short sketch of which I should like to outline briefly only the essential features which are certainly capable of raising fruitful discussion in competent and interested quarters.

Both questions "To what extent would International Free Trade remove the causes of international conflicts" on the one hand, and "By what efficacious means can this removal be satisfactorily effected" are intimately connected with each other, so that I will treat them as a whole, while at the same time putting another question which I consider very opportune and also very closely connected with the other two. It is "How can the League of Nations help to remove the causes of international conflicts?". As international free trade cannot be introduced into all the countries in the world except by means of simultaneous action in every country, it will first of all be necessary to submit to the League of Nations the liberal principles of international trade, which, for the moment, is alone capable of bringing some order into the universal economic chaos and the insane ambitions of protection. When the League has pronounced its opinion thereon, our three questions must be examined at one and the same time, for just as the most efficient means that international free trade can adopt to remove the causes of international conflicts will be the instant intervention of the League of Nations, in the same way this latter institution will recognize in the application of international free trade the most trustworthy means of effecting the disappearance of discord among the nations.

As international conflicts have always existed and as the security of the international situation has always been unstable, it would be undertaking an excessively delicate and difficult

duty to endeavour to remove their causes. But such a duty would be the noblest that mankind has ever known. For what praise is great enough for such human aspirations and such beneficent principles which aim at establishing permanent universal peace when all the peoples of the terrestrial globe may call each other brother, yea brothers inspired by a sincere and unshakeable friendship. *But in order to establish this fraternal agreement among the peoples, it will first of all be necessary that the peoples themselves should grasp the importance of this fecund friendship based on real mutual trust.*

And when that has come to pass, and if all the peoples consent to deem themselves brothers united by the ties of human Justice, we can then feel that the corner stone of the House of Lasting Peace has been laid, and well and truly laid. But this real mutual trust, the firm basis of every fruitful step of this nature, cannot be attained by means of a protectionist policy which, unjust in its principles, unfair in its application, and disastrous in its consequences, is only apt to bring about economic and commercial disagreements and illegalities which, in their turn, only lead to continual conflicts between the nations. Consequently the poisonous root in all this evil and the principal cause of international dissension is for the greater part Protection, our enemy. If they desire to adopt the idea of permanent peace, the nations must in the first place rid themselves of these hideous principles of economic injustice called protection, and *declare themselves ready to follow a more just and humane commercial and economic policy which is solely that of international free trade.* It is indeed true that every economist having at heart the restoration of a sound and fruitful world economy and the establishment of peaceful cooperation among the nations, and who examines this question objectively, must inevitably come to the firm and unequivocal conclusion that only complete freedom in the exchange of production can effectively lead to the introduction of real economic justice, the basis

of a lasting agreement between the nations. And this lasting agreement will quite naturally lead to the abolition of all causes of international conflicts and to the economic union of the Nations, which is the idealistic aim of the League of Nations.

The freedom of international trade permitting the world's production to exchange freely its products and to follow the natural course of their sale, gives every people the right to obtain freely and without prejudicial restrictions its supplies of all the classes of commodities which it needs for its existence, raw materials, half manufactures and manufactured products, and that to the best advantage of its vital interests and under the best possible conditions. Opening the doors to foreign production and to its reciprocal exchange, thus steadying prices and materially decreasing the cost of living, reducing, if not removing over-production and hence unemployment, international free trade is an excellent factor in causing economic crises and disagreements to disappear. As it puts the general interests on a footing of complete national and international economic equality, free trade is not only the most proper instrument for establishing unity among the different economic groups of a country on a just and impartial basis, but also the most reliable instrument for getting rid of blind jealousy and unfair rivalry with its neighbours. The introduction and application of international free trade will thus successively remove the essential cause of international conflicts which is that arising from economic and commercial differences; for wars have been for the most part produced by these latter. The part which international free trade will therefore be able to play in removing the causes of international conflicts is very great, indeed the most important one.

But how must we proceed in order that this part can be played everywhere as we desire? By what means can the nations be persuaded to apply the principles of international free trade?

Dear fellow free traders, the only efficient means, at least for the present, will be the intervention of the League of Nations in the realm of international commercial policy, for it is certain that this world official institution must intervene in this primordial question since such intervention will be not only an essential point for the re-establishment of economic and political equilibrium, but also for the existence and development of the League of Nations itself.

The economic union of the nations, the idealistic aim of the League of Nations, can never be achieved, as I have just pointed out, by means of a protectionist commercial and economic policy carried out individually by the States who are members of the League, making commercial transactions very difficult, at times impossible, owing to artificial barriers mentioned at the beginning of my paper and which can never restore the proper course of the natural exchange of production. This economic imperialism in the form of protection to which many of the States, members or partisans of the League of Nations, and among them, alas, **even founders of it**, unfortunately still pay blind homage, which is harmful to the world's economy especially owing to its innumerable customs tariffs outside all economic and human justice, must disappear from the customs and commercial policy of every member of the League, *for this protectionism only tends to violate the interests of another nation*, and thus constitutes an act contrary to the intention of the League of Nations. Consequently the League must imply the removal of all economic barriers still existing, and it will only be able to base its international commercial policy on the principles of free trade, for it is only by being inspired by these principles that it will be able to intervene fruitfully in the commercial and economic policy of the world.

Now in view of the fact that there are members of the League of Nations which reserve to themselves complete autonomy in fixing their customs tariffs (autonomous and incontest-

table tariffs) and which, in general, only consider treaties containing the most favoured nation clause, and that there are others which are willing to grant special and reciprocal concessions on their general tariff according to the various commercial treaties concluded, *there inevitably result from this diversely applied customs policy varying economic relations between the various nations of the League, for by granting favourable concessions to certain co-members but prejudicial to others, customs and economic instability naturally follows.*

In consequence we must above all endeavour to create customs and economic stability and more especially *uniformity in the application of the general tariff of the members of the League*, in order to exclude as far as possible differences as regards customs and economic affairs. This general tariff of a member of the League, which I should like to call simply the "usual" tariff, and which might naturally differ from State to State according to its customs policy — and especially its financial policy — must be applied *uniformly* to all the members of the League without any exception whatsoever. Thus without touching the individual commercial policy of each member or their freedom in customs affairs, a freedom which we do not wish to deny and which cannot be undermined, we should arrive at *the introduction of the uniform application of the most favoured nation clause*. Consequently if, for instance, two members of the League grant each other special reciprocal concessions on their usual tariff, which must be a maximum tariff and considered solely as a fiscal tariff which can be eventually reduced or even suppressed as soon as the financial situation permits, *all the other members of the League will enjoy the same customs concessions*. And if on the other hand a member of the League grants special concessions on its usual tariff to a non-member, all the other nations belonging to the League will also enjoy the same concessions *owing to the uniform and collective most favoured nation clause*.

We should therefore see as a result of this equal application

of the usual tariff not only a customs and economic stability in accord with human equality and justice applicable to all the members of the League, an equality which would be the most firm basis for the successive introduction of economic union among the nations and of universal concord, but also the absolute probability that the states which do not yet belong to the league will join without delay in view of the advantages offered them from the economic and commercial point of view by virtue of its favourable economic regulations based on equality.

The entrance to the League of Nations by nations as important as the United States of America, the former allies of Central Europe and Russia, but a Russia free from the horrible yoke of the terror and anti-civilization, will have to come about in order that the joint work of restoring the world's economic situation and of erecting the House of Universal Peace shall be complete without the exclusion of such important and productive territories. But their adherence will only be effected by means of an advantageous offer that the League will be able to make them in economic matters especially. This advantageous offer will be found in the plan which I have just submitted to you. It will induce States now standing aloof to join in spite of all, for the advantages that they will reap by their adherence and further by the application of my plan are very important for them.

Nevertheless it will be indispensable that all the members of the League should be inspired by *perfect loyalty and steadfast will* in order to realize the principles of the League of Nations; therefore all political bad faith, all economic and social *arrière-pensées* must make way for this real reciprocal trust which shall govern our tendency to maintain the world's peace, to fraternity among the peoples and economic union among the nations. But I repeat *that it is only by being solely inspired by these loyal intentions that the peoples will be able by work in common and peaceful and harmonious collaboration and after having caused such rivers of blood to flow, to*

demonstrate how dear to them is the restoration of a new era of peace made prosperous by true human justice.

Dear fellow free-traders, resuming my paper and this provisional plan, I beg the Third International Free Trade Congress to adopt the following motion :

"The Third International Free Trade Congress held from the 13th to the 16th September at Amsterdam, and at which almost all the civilized countries of the world are represented, resolves after having heard and approved of the summary and plan of the Swiss delegate M. Gallati, in order to steady the present sad economic situation of the world and to remove the causes of international conflicts by means of the intervention and commercial international policy of the League of Nations based on the just and equitable principles of international free trade, to send a telegram of sympathy to the Secretary General of the League of Nations, begging him to take note of this decision and informing him that the international committee will be glad to keep the draught of the plan in question at the disposal of the Secretary General to be subsequently transmitted to the council of the League of Nations.

The Congress further expresses the hope that the Council of the League of Nations will then submit the said provisional plan, which still requires to be worked out in detail, to friendly scrutiny, and firmly trusts that the League of Nations, while remaining faithful to its noble human principles, will perceive the far reaching effect of the loyal execution of the Gallati plan for attaining the object of the League. which is also that of our international association, to wit, the economic union of the nations and the establishment of permanent peace".

And finally, dear fellow free-traders, I should not like to fail to draw the attention of the partisans of our noble cause to the necessity of carrying on an intensive propaganda in favour of international free trade in every country in the world. It is not only a question of persuading the peoples of the benefits of free trade, but it is of equal importance to

impress it on the Members of the various Parliaments at the same time, for the fate of the customs and commercial policy of a country depends greatly and almost everywhere on them. In my country, Switzerland, in spite of the fact that we have a party in the Federal Chambers which courageously and often successfully defends the liberal commercial policy, we are also hard put to it to fight, in spite of the liberal constitution of our country, the protectionist tendency which has unfortunately of late shown itself in Switzerland too. I hope that my personal efforts to found a Swiss Free Trade League will soon have the success they merit in spite of the present difficulties which are of a rather transitory nature. Nevertheless I make an ardent appeal to my colleagues of our neighbouring countries to facilitate our task as far as possible. An important centre of international traffic and a relatively important exporting country also, Switzerland cannot lag behind in forwarding the efforts of international free trade which will alone be able to save the economy of the world and international relations from total ruin.

CAN FREE TRADE PREVENT INTERNATIONAL CONFLICTS?

by

J. BERLIT, Esq.

No human being exists for himself alone;
We must all help one another.
Hence there are so many gifts;
One man cannot have them all.

GOETHE.

No human being exists for himself alone; neither can any country exist by itself alone. They must all help each other. Examine whether that has been the case up to the present. It is not so very long ago since people were saying in our country that we must expand, we must conquer land in the East. What you have not got, you take. How moral! In civil life a man who even under the stress of necessity encroaches on another's rights is punished. This legal point of view must also be applied to the life of the nations. Up to the present time however, force has been the idea that has dominated in that sphere. Each of the great Powers wished to be the most powerful and to be able to lay hands on anything in the world that they coveted. One can understand savages attacking their neighbours when made desperate by hunger or distress, and yet even that was not done forthwith; the Germanic tribes generally first of all begged for fields of corn when they knocked at the gates of the Roman Empire. Only when they were refused, did they endeavour to take it by force.

At the present day commerce has spread its net to include even the most remote of spots; the raw materials of all countries are available, ships and railways can transport goods from territories where there is an excess to famine stricken

districts. We do not need to add *Injustice* to natural *Calamities* such as plagues, famine, hail storms and suchlike. Calamities cannot be avoided, but man alone is responsible for injustice in the world. We must act as human beings, i. e. as *thinking* beings, and if we think, we must see that force and ideas of power stand lower in the scale than justice. Everybody has the right to live, and reason tells us that that is possible when everybody helps, when nobody thinks himself superior or privileged. Nor has any nation privileges. That is our international guiding idea: Respect for all Nations, equality for all Nations, peaceful exchange of the surplus and the products of all countries.

I have taken the above from the pamphlet of my political colleague, the sociologist Valentin Traudt of Cassel, entitled: "International". It contains the basis of the idealist demand for "the Open Door in all Nations for all Nations".

Every nation has the same right to existence within the framework of the world as every human being within the framework of society. Justice therefore requires that no nation shall assume or obtain privileges by force or agreement. All commercial treaties only aim at the stronger state forcing conditions on the weaker which ensure the former advantages at the expense of the latter. Hence there arises a feeling of estrangement between the two contracting parties which in the course of time changes into bitterness, and finally into hatred, which may often lead to war. The fact that the principle of the complete equality of the signatories of treaties, whether commercial treaties or not, is pushed in the background, proves that in numerous cases the negotiations were broken off and there ensued a condition when no treaty existed together with a tariff war which, being waged with all the usual petty wranglings, lasted until the weaker of the two adversaries was exhausted and was obliged to yield in the interests of self-preservation.

How different is the picture when citizens of all nations

know that they can carry on their business or attend to their trade interests in any country exactly as in their homeland, untrammelled by economic restrictions, as fellow citizens of the world with equal rights. According to the climatic conditions, the character of the soil, the mineral wealth, according to the geographical position and other vital conditions, almost practically every country has some natural peculiarity or other which ensures it certain advantages, or such advantages may consist in the more ample facilities offered to the manifestation of talent in the various domains of human knowledge. In consequence every country has something to offer to the others, every country can come to a peaceful agreement with other countries, and indeed only advantage may accrue from competition between such countries as these.

There is one thing absolutely certain — in no free trade country can an industry arise in so far as the natural postulates for its permanent existence are not present. When such are lacking, a protective tariff creates artificial conditions, it favours the development of an industry built on sand and alien to the country, at the expense perhaps of those who consume the commodities, viz. the consumers, and gives the money invested in this protected industry, viz. capital, an opportunity for illegitimate exploitation. Every unnecessary increase in price however leads to a reduction of consumption, to economic loss.

If we cast a glance backwards at the economic development of Germany we see how during the period of the Petty States system (until the Resolution of the Imperial Deputation of Wetzlar in 1803 there were about 260 states directly connected with the Reich) States, principalities, countries, territorial estates, cities and towns, mutually closed their frontiers by means of duties, and road and bridge tolls.

In consequence since the Thirty Years War, trade and transport, industrial energy, were more or less hampered.

Impoverishment was general, more especially as Germany was the theatre of numerous wars, and free development was moreover hampered by antiquated guild laws. Only the recognition of the freedom of exercising a trade in 1815 by the greatest German State, i. e. Prussia, brought about an advance of unexpected dimensions. Then the tariff frontiers were abolished within Germany, which at that time was able to feed its small population and was dependent neither on exports nor imports to any extent. The progress that the German economic situation made by leaps and bounds led to commercial treaties being made which contained only nominal tariffs for a few commodities and were fundamentally free trade. It was only in 1879 that BISMARCK initiated a real protective policy which led to a competition in tariffs between the Agrarian Party and the industries which had now developed into great concerns, and brought about a forced, hot-house growth that challenged the envy of all other nations. This was accompanied by the overhasty transformation of all economic and social conditions, the depopulation of the countryside, the metamorphosis of the agricultural labourer attached to the land into the shifting factory hand, the unhealthy growth of the towns without the physical and spiritual needs of the working classes being cared for by means of sanitary dwellings and other measures. On the other hand a strong current of alien immigration commenced, more than one million foreign workmen being engaged in Germany, mainly in farming. The social question had, owing to a lack of understanding and farsightedness, grown into a peril which, owing to the industrial crises inherent in protection (overproduction, dumping, etc.), justified the very gravest alarm in the case of serious strikes. Such an unhealthy development would have been impossible with Free Trade, the relations with the majority of other countries would have remained friendly and become more and more intimate, indeed the protectionist states would have been finally forced into the path of Free Trade. The ultimate reason of the war was

the conflict between irreconcilable economic interests which have their origin in the protective system.

Now it is necessary for all nations to draw the correct conclusions and to learn the lessons that the past teaches. We aim at the nations peacefully living side by side, peacefully exchanging the commodities they need and their spiritual potentialities. Wilson's Fourteen Points show the right way. First and foremost stands the "Open Door" in and for all nations.

We must attain this aim if mankind is again to secure the fundamentals of a peaceful existence. Only in the contest for the prosperity of the whole world may the ambition of the nations and of their leaders seek and find their satisfaction.

Economic, political and spiritual liberty must go hand in hand, they are the conditions necessary for the advancement of the human race to untroubled peace, to universal prosperity and to the highest spiritual perfection.

Free Trade is the pioneer that prepares the road thither!

THE ETHICAL ELEMENT IN FREE TRADE,

by

Prof. Dr. D. VAN EMBDEN.

That free trade is to be preferred to protection is not to be proved exclusively by figures and statistics of the movement of goods nor merely by a theory of exchange. Nay, it is no less a question of good and evil in the pure ethical sense, and perhaps the most powerful arguments in favour of free trade are to be found in that sphere.

Let us distinguish between the national effect of the system on the one hand and the international on the other.

A system of protection is a form of production policy. The authorities endeavour by means of purposeful measures to attain in the main three things: to increase the amount of productive work to be done by the members of the community; to safeguard the national existence; and to increase the output of production.

At first sight this does not sound bad. The protective policy therefore drives home the lesson that work is a civil duty, and it recognizes at the same time that it is the duty of the State to promote that part of a nation's strength. It also points out the danger which may threaten the national safety; but to this we shall return later.

The duty of the State. It is indeed true that a plea for free trade need not be one for the non-interference of the State. The state has also duties within the sphere of trade, viz. to organize that which without its guidance would be confused and difficult to overlook, to suppress that which involves practices of fraud, adulteration, abuse of power, attacks on human dignity. It acts similarly in the sphere of labour, the use of the land and otherwise.

But does the policy of protection really, according to its purport, answer to these characteristics? Its purport, to name the principal one, is to prevent foreign competition. The production policy therefore consists of the following: in the midst of the international division of labour which has spontaneously arisen out of economic competition, the national frontiers are accentuated and even at times raised to the height of full party walls.

Now frontiers have arisen from causes which have nothing or little to do with productive efficiency. In so far as they expressed natural divisions, the improvements in the science of transport, tunnels, bridges, steam navigation, electric telegraphy and telephony, have made an anachronism of *that* reason for separating the economies of the nations. For the rest linguistic differences, dynastic decisions of past ages, and conquest or other uses of force determined the direction of the geographic dotted lines. This direction has certain juridical consequences of an administrative order and it has cultural value for the self determination of the nations, but as regards productivity, as regards human prosperity, it is purely capricious and, inevitably, in the first place illogical.

But in that case the accentuation of the frontier, the blunt scission of the international division of labour according to the above antiquated historical pattern, signifies not so much the guiding but rather the disorganization of production.

And in other respects, too, the purport of the production policy sins against what should be considered as the task of the state. The foreign goods which are placed on our market are wanted by the consumer on account of their cheapness or their superior quality. The foreign producer had therefore worked more productively, he had solved the world problem on this point better than the one who was temporarily or permanently driven from the market. This deserved success can scarcely be called a misuse of power or fraud or, least of all, an attack on human dignity. On the contrary the

stimulus to greater efforts or to taking up another branch, and the lesson in the solution of the problem of prosperity, needed to be administered. The state, by means of its mere injunction that the citizen must work, did less than half its duty; but if it moreover hampers the free continuation of this education, it demoralizes the particle of instruction that it has just begun to impart. It did not point out to the citizen who was in default that *he* must reform, increase his skill and specialize in order that, for the sake of increasing the general prosperity, he could face the foreign competition untrammelled, but it taught him in the first place to lean on the state, on an embargo and on the suppression of sane education. He must expect national strength from the legislator. The state, in its leniency, taught him to shirk responsibility. Lethargy is the result.

And thus a protection policy will, out of its three characteristics above-mentioned, rather achieve an increase of employment than an increase of output. Well, this is not surprising as the latter is being worked for by means of preventions, by keeping off cheap and even superior commodities, by closing the doors to the so-called final products which continually prove to be somebody else's half manufacture or raw material, hence by the erection of barriers against productivity. Now, to bring about the increase of labour at the cost of a decrease of prosperity can scarcely be called a success. And nevertheless it often appears as if protectionists, when they point triumphantly to increased national opportunity of employment, think that they have thereby achieved everything that is to be desired. One step further, and they would increase the national amount of "work" by wilful destruction. Indeed, is not the obstruction of traffic a kind of destruction, viz. of the science of transport?

The more absurdly, the more unnaturally this rejection of what is economically best is carried out, the more obstinately will smuggling endeavour to a certain extent to restore the normal exchange of goods. But there is no necessity to de-

monstrate any further what is the moral significance of a legislation which induces such practices.

At times this production policy is qualified as being a righteous "equalization of the opportunities of development". What a perversion of a splendid democratic principle! To destroy the advantage which some foreign producers have in some respects by evoking artificial dearness and wanton improductivity, by destroying the division of labour that would profit both parties, means an "equalization" by retrogression, a levelling down by inflicting loss. But it certainly is in harmony with the sentiment of jealousy which is so peculiar to the system.

Nevertheless, a real service to productivity could be discovered in the protective system in so far as it aims, as a *temporary* measure, at tariffs for infant industries to help them through their early years until, having attained maturity, they can withstand foreign competition unaided. The practice of protective legislation however makes this illusion, too, disappear in smoke. It is not the scientifically thought out, theoretically unimpeachable tariff that finishes up in the statute book, but the unsystematic, confused botchwork which results from the egoistical exercise of power by innumerable interested parties, and the endless compromises that are agreed to in the cabinets and commissions of the parliaments. For in the very clauses of the law which is soon to sever the exchange of commodities, behind the scenes barter is being busily carried on. Legislation is reduced to materialistic chaffering of interests. It is not the social value of an industry that decides the issue, but the strength of its organization, the number of voters it represents, the press organs it has bought.

And the temporariness of the measure is simply infinite in duration. "Protected industries", says DAVID STARR JORDAN, "never grow to manhood; in their gigantic babyhood they bestride the world holding senators and ministries in their

hands". The explanation is simple: "vested interests", human weakness, egotism and again the brutal exercise of power create ever fresh obstacles in the way of their abolition.

In this way even the protection of infant industries becomes a producers' policy of the worst kind. The producers of spiritual goods from the very nature of the case never reach their turn; artists, scholars, clergymen, they too often live in poverty, worry and care, for on their work there depend merely the highest cultural goods of the people; they do not bring to market (and to parliament) that which Manufacturers' Unions and Agrarian Associations can bring. But the consumer especially is sacrificed, and not to a general interest of a higher order, but again to the circumstance that his power is much more defectively organized. In the increased prices which must ensue from protection, if it is to have any effect, the already too unjust distribution of incomes is preposterously influenced. By the formation of trusts which flourish all the more luxuriantly on the walled-in home market, the consumer is again deprived of the blessings of free competition. When he has been bamboozled out of his consent as a voter with the soothing assurance that the duties will only be "moderate", they are steadily increased as time goes on and increased ever and again. If the consumer is induced to consent to the sacrifice because the exchequer simply must have the money, with this indirect, disguised taxation he does not see that he gets through these increased prices an infinitely heavier gross pressure thrown on him than the net profits that the treasury collects. If finally all the disadvantages of protection have been concealed under the bait of the proceeds being applied to, let us say, workmens' pensions, which could not be afforded without this measure, we may then consider all this deception of the popular will as consummated.

That is, from a democratic point of view, the immorality of protection.

And such legislation that robs a nation of so much of its

greatest patrimony of liberty, its self determination, is usually qualified as peculiarly "national". Its adherents who, in spite of their numerous good intentions of all sorts, undermine their own national wealth as we have indicated, deem themselves much greater patriots than the free trader who administers to his country on occasions the bitter, it is true, but salutary remedy of foreign competition, the free trader who recognizes that international free exchange of commodities searches everywhere the points of the relatively lowest costs of production and therefore procures greater prosperity for *both* parties, who consequently does *not* begrudge the foreigner his profit, and therefore does not feel called upon to thwart, to threaten and to harass him.

What? Community of interests, despite difference of suzerainty, helter-skelter across the frontiers? What weak-kneed cosmopolitanism! How infinitely more patriotic it is to repulse the foreigner, to drive him away, to goad him if need be haughtily, and to place the mother-country economically "über alles", to isolate him and to organize against the foreigner. And this policy, faithful to its love of monopoly, monopolizes also patriotism, or, to use a British Imperial catchword, „loyalism". The free trader is a pro-foreigner, anti-national, pro-enemy. The calumny is lavished abroad and public opinion is poisoned.

We thus naturally come to the international effect of the protective system.

Protective policy is said to be desirable, at least it must be suffered, because it is a powerful factor for national safety. For it keeps those home productive industries alive whose products are indispensable in case of war.

Neglecting the material futility of this specific for safety, (Germany, to mention an example of "autarky", groaned for thirty years under agrarian protection in order to resist a

possible blockade!), let us again examine in our subject the ethical side of its line of conduct.

In effect the national safety *is* threatened, but mostly by this very aversion for the foreigner, this jealous begrudging of profit, this blindness to and severance of the community of interests which are inherent in principle in the protective system. "Peace and goodwill amongst nations" *is* undermined so long as protectionists impress on the masses the absurd theory of exchange contained in MONTAIGNE'S "Le profit de l'un est le dommage de l'autre". War *is* prepared, morally prepared, when it is attempted purposely to harm the foreign producer, to thwart him by the power of the State; when the gifts of nature, i. e. the patrimony of mankind, are turned into a national monopoly, especially when this is done with colonial territories, which the white race in any case does not govern in self-determination, but, in the moral sense, as a mandatory. War is prepared and promoted when in thought war is dallied with and measures are taken against it. For such thoughts and such measures prove mistrust and isolation, provoke a corresponding reaction and reciprocal unrest

And thus it is with this "safeguarding" of the national existence exactly as with the "para bellum" prescription in general: it rather imperils that safety, and the danger is all the greater in proportion as it is the more thoroughly applied.

Nor does the "national" protection act more favourably, if it is applied by the quasi-enlightened protectionists who are not free traders only because other countries are not, and who only injure their own and foreign countries because other people will not "cease this fooling". Neither is this form of repaying evil for evil a way of serving peace.

All the more acute does the estrangement of the nations become, if a tariff is increased in order to compel a reduction elsewhere. Whereas in general the reduction is not realized, and the result is wont to be nothing more than a renewed increase on both sides, the moral and pacifistic effect is the

same as usually proceeds from compulsion and threats. The protectionists have indeed many reasons for crediting themselves with a good start in the race for patriotism.....

But the policy of menaces remains ethically quite in the line of the shirking of responsibility. We only do evil on account of *other people's* baseness, we refuse to call off the attack so long as our neighbour will not understand solidarity. Sin never hides in our own bosom. Is a more profound, more fundamental, reason for war to be found than this self-righteousness?

Shirking responsibility! The moderate protectionist Dr. SCHILDER, in his extensive but rather indigestible work, "Entwicklungstendenzen der Weltwirtschaft", 1912/1915, points out most "imposingly" that the fault of the great rise in German protection lay at the door of..... England! Naturally, England ought long ago to have adopted moderate protectionism in order thereby to force down the German duties.....

And finally we meet with that most elementary negation of morality: Measuring with two measures. Or is there anything more painful to be observed than the ever repeated joy which so many protectionists display at the free trade system of their neighbours? Is there in political economy anything more repulsive than to hear the advantages being summed up that result from the solidarity of others? In vain for them ring out the words of the Sermon in the Mount: "Therefore all things whatsoever ye would that men should do to you, do ye even so to them, for this is the law and the prophets". Not so: all things whatsoever ye would that men should do to you, do them not for selfishness — thus speak the law and the prophets of protectionism.

Two vocabularies mark the contrast between free trade and protection.

In the vocabulary of protection we meet with the following terms: more employment, causing a shortage, high prices, the

fault of others, state assistance, monopoly, corruption, opposition of interests, jealousy, defence, mistrust, reprisals, threats, war.

In free trade we have: more prosperity, personal responsibility, energy, free competition, popular liberty, solidarity, cooperation of the nations, appreciation and trust, peace.

Can there be any doubt as to where the evil lies, and where the good?

THE MORAL AND PSYCHOLOGICAL ROOTS OF PROTECTIONISM

by NORMAN ANGELL.

Is it not possible that the advocacy of Free Trade is less effective than it might be because we are apt to regard Protection as a purely economic manifestation, when in fact its causes are largely moral and political? I want to suggest that Protectionism is widespread very largely because it is a part of the phenomenon of Nationalism, and that it will yield most effectively to a revision or modification of the Nationalist idea.

A few concrete illustrations will render clear what I am here attempting to suggest.

A generation or so ago there was an agitation in the United States for a high tariff upon certain Canadian products which competed with American ones. This agitation was precipitated by causes which were, of course, purely economic. That is to say, a group of American manufacturers wanted protection against Canadian manufacturers. One would say here: this effort at Protection is obviously a purely economic problem. But that view overlooks essential facts. Note this: there appears at about the same time a movement for the annexation of Canada to the United States. The American manufacturers who had been agitating for Protection at once realised that Protection against Canadian products would be impossible if that annexation took place, for Canada would then be part of the United States. Canadians would be Americans — United States Americans, that is — and no legislature in the world would dream of “protecting”, in this sense, one locality against another locality of the same nation. In other words, what made the Protection in this case possible was the fact that Canadians were foreigners. If they had not been, there would have been no support in public feeling for the Protectionist

measures — support which, after all, must be obtained if the measures are to become law. And I suggest that it is that feeling against foreigners which makes it possible for general support to be given to special interests — for the general interests, indeed, to be sacrificed to the special interest — which is of the essence of Protection. Why should Americans, as a whole, if the economic is the dominating motive, sanction protection against Canadians if they happen to be in a foreign State, and refuse it if their country happens to be a State of the American Union? The economic facts are not altered. The Canadian competition would not be removed by making Canada a State of the American Union. The same factories of Toronto would be competing with the same factories of Massachusetts, whether the Stars and Stripes or the Union Jack floated over Toronto.

I submit that it is the Nationalist idea which, in this particular case, makes Protectionism possible, which enables, the special interests to rally the general feeling to their support.

Let us take a more modern instance. There is an agitation in the United States at the present time for exempting American ships from tolls in the Panama Canal. It is a form of Protectionism in favour of American shipping. The proposal is having widespread support from the American public. Are the millions who support it owners of shares in ships which would benefit by the change, or would they in any fractional degree benefit economically? Not the least in the world! For the most part they would suffer economically by the increase in freights which the exclusion of European shipping would entail. Yet there will be in certain sections very passionate support for the new Panama Tolls Bill. That public interest or passion will be determined hardly at all by economic considerations. Its degree of heat will rise or fall with the rise and fall of hostility to England. The incidents of the Irish question will determine the fate of this particular piece

of American economic legislation to a far greater degree than will any consideration related to economics, properly speaking.

Another aspect of this same phenomenon may be illustrated by the course of the Indemnity negotiations. During the first two years which followed the Armistice, the average British manufacturer or business man, including all the prominent and active Protectionists, joined in the clamant demand for a punitive indemnity, calling for the payment by Germany of thousands of millions sterling, calling, that is, for the placing of vast quantities of German goods on the markets of the world. The Protectionists were calling for the increase of German trade. That a large indemnity could only be paid by the production of goods which must compete with his own, did not disturb the Protectionist in the least. The active factor of his opinion and his vote on the subject was the conception of Germany, not as a conglomeration of many different kinds of persons — some making clocks to sell in England and others buying socks or tennis rackets made in England — but as an economic unit or a "person", who had to pay up and be punished. In just such manner was Canada an economic entity or person to the Americans who supported a tariff against "her". Once absorbed into the Union, Canada would cease to be "her" at all, and would become merely a number of individual manufacturers and farmers, some competing with, but some being also customers of other American manufacturers and farmers. The point is that the fact which provoked the demand for Protection would have disappeared. That fact is a mental concept. You may leave all the economic facts of competition unchanged, and stop all demand for Protection by a purely political change. Quite plainly here, it seems to me, Protection is rendered possible by virtue of certain moral conceptions which come to have extremely important moral complications; and I suggest that an indispensable part of the fight against Protection is to challenge those moral implications.

Behind what we might call the moral premise of Protection seems to be this idea: There must be equality of opportunity in trade and commerce as between individuals within the same nation; but there is no moral obligation to extend that equality to foreigners; indeed, there is no obligation to foreigners at all; and even if our economic arrangements expose them to very great hardships, that is just an ill-fortune with which we need not concern ourselves. We console ourselves with the reflection that it is the fortunes of competition; in the last resort it is the struggle for life.

If the moral question here involved could be put vividly to popular consciousness, it is doubtful whether Nationalism or Protectionism in their more mischievous forms could survive the test. If it were more generally realised that sooner or later we *must* recognise our responsibility to "foreigners", and that even if Protectionism were economically sound, it — like successful war or conquest — leaves the fundamental problem unsolved, we might undermine by that means the motive to Protectionism. It was often claimed before the war that the Central Empires would be compelled to fight sooner or later, because their territory was becoming inadequate to support their population. They have fought and have been beaten. The problem of a population greater than that which their territories can support is in no way solved. Do those who, by virtue of their power, are in a position to forbid access to available raw materials or soil or markets, claim that the excess beaten population must simply die? Are we to regard semi-famine as something we are quite entitled to impose on conquered peoples? We raise here the question of the right to life as part of the economic problem. If we face this fundamental moral question, we shall then come to the question of the minimum economic rights which civilised nations must recognise, and with that the problem of Protection would enter upon a new phase.

FREE TRADE AND ETHICS

by

HERMANN BUTZKE, Esq.

When in October last we met in London for the first time after the war, we were able to note to our great joy that the number of those who professed free trade tendencies was not small, but unless we purposely closed our eyes to the fact, we were obliged to see that the influence of Free-Traders was small. In what country are there convinced Free Traders in the government? In what country is it possible for Free Traders to influence the undermined morals of the peoples who took part in the war? This is the explanation of the weakness of the free trade movement.

Free Trade and morality, protective tariffs, coercion and corruption. These are the two poles round which the fate of mankind revolves. All nations are dependent on their economic situation, and with the greatest economic freedom among the nations there arises a sense of moral responsibility, whereas selfishness, immorality, corruption and all the evil qualities of mankind are quickened by protection, inspired by hatred of the foreigner, the child of intolerance.

The older of the free traders of my own country will remember the saying:

Long life to Protection!

It fills our coffers

From other peoples pockets.

A satirical rhyme and yet vox populi, vox dei.

Protection and egoism, Protection and hatred of the foreigner, Protection and war are of the same family, they are inseparable. Egoism, hatred of the foreigner and war are however not

moral values. Free Trade promotes peace, for only with peace among the nations can Free Trade prosper. Free Trade can only fight with spiritual weapons, only noble motives can be adduced for the establishment of Free Trade, and this is perhaps the reason why, on the one hand, the Free-Trade movement is for the time being powerless, and on the other a still stronger movement towards Free Trade has set in since the end of the slaughter of the nations.

We have seen since time immemorial that tribes that no longer found a livelihood in their temporary dwelling place began to migrate and made war on their neighbours. In the two preceding centuries there were therefore economists who proved that it was monstrous that a nation should found its own prosperity on the annihilation of other peoples. The reaction however set in, and in the last two generations under the influence of growing industries, they reverted to the point of view that, in the words of BRENTANO, "the gain of one man is only possible at the expense of another". It was thought that it was only by injuring one's adversary that an advantage could be gained. Immorality was elevated into a principle. Short-sighted people promised the masses that their own standard of living would be improved if foreign products were barred from the home market, and laid the foundations on which protection could prosper.

These interests were exclusively guided by their own financial advantage. Protection filled their coffers from other people pockets.

The aggressive protective policy created the estrangement between the nations of Europe and brought about the war. German industry did not develop since the BISMARCK era of protection within the limits of natural conditions, but rather violently and artificially. Agriculture by means of corn-taxes and special favours reaped enormous values at the expense of the home population and drove millions into the industrial centres, in which they were absorbed into the proletariat.

Socialism and Communism are the consequences of that "so-called far-sighted policy of the German Empire". Natural evolution would certainly have slowly but surely put Germany industrially on a sound basis without bringing it into opposition with other countries.

If the Prussian farmers of the eighteen forties were still free-traders because they exported their wheat to England and themselves suffered from the evil effects of the Corn Laws, they became protectionists on the foundation of the German Empire because they obtained the largest profits for their own pockets by the exclusion of foreign products.

Agriculture raised in the incubator of national passions, brought about the greatest contrasts and lead to this latest terrible war. The 4th of August 1914 brought home to every free-trader the confirmation of these opinions, for the first economic decree after the outbreak of war opened the frontiers to all foodstuffs. The protection of foodstuffs had always been defended and carried through on the plea of the independence of our food supplies by means of the protection of the home production, and now on the first day of war it had to be abandoned because imports must not be burdened with tariffs.

Unfortunately this single act of withdrawing protective tariffs has had no successor. As long as Germany was blockaded, it was perhaps a matter of course that a system of coercion should arise in place of the freedom of trade at home, and we heard from the most hardened protectionists the most zealous defence of all the measures that restricted freedom.

The world suffered the greatest loss when war broke out.

Sound common sense was lost and it has unfortunately not yet been recovered. If the war had taught us anything, an economic peace ought to have been made which, like a "rocher de bronze", should have been inscribed with:

The Freedom of Movement of all Peoples;

Economic Equality, and the Abolition of Protection.

The ethics of free trade convictions will allow me in this

assembly to speak briefly on these points. I again refer to our London Meeting in October last and especially to the final letter of the Cobden Club to the Press in which there is mention of the moral difference between Free Trade and Protection.

Fifteen nations were represented and were able to discuss their ideas in the most friendly manner. Could the representatives of fifteen protectionist states sit down at the same table without coming to blows at the end of fifteen minutes? Why we only need to bring together the representatives of a few British Key Industries and a few German industrial magnates. What would happen? An agreement might ensue, if these gentlemen could share the world with each other. Only if they nowhere come into competition with each other would conflicts be avoided, and to that end they would have to plunder weaker nations.

They would not be able to use moral weapons. Only egoism, only the advantage of their own pockets would guide them.

Our great free trade friend, Mr. YVES GUYOT, told us in London that he regretted that Germany had not been compelled by the Treaty of Versailles to adopt Free Trade. Mr. GUYOT will admit that similar compulsion exerted on certain interested quarters in France is desirable.

Our British friends have something to say of the immorality of their protectionists, and none of our German friends will contradict me when I assert that the protectionist movement in Germany is more powerful now than during the worst period of protective duties. Last year in London we laughed at the possibility of establishing protective duties between Lancashire and Yorkshire. Well, gentlemen, we in Germany are experiencing a strong tendency to set up protective duties between Bavaria and the rest of the Empire, and during the massacre of the peoples, which is now thank God a thing of the past, one district isolated itself from other, and just as in Flushing, Goch or Bentheim, faithful customs officials went through our luggage for dutiable articles, the

bags of the travellers were searched in the railway stations for food. After all these restrictions one would have thought that a yearning for freedom would stir through the nations. That is not the case. Let us take the demand for freedom of movement which we have just formulated. Who has such freedom? I will not speak of the Germans who are still examined apart at Dover. Let us take a freeborn American citizen. He receives from his free Republic a passport entitling him to travel in Europe wherever he wants. How far does this authorization extend? Must he not obtain a visa in Holland? Does he not need a Belgian visa for his journey through to Paris? Woe unto him if he wishes to go to Southern Europe. The nations have not yet forgotten the trenches, and to-day they surround themselves with artificial barbed-wire. The freedom of movement of the traveller is restricted, and the freedom of movement of the emigrant is in a still worse plight. All these immoral restrictions only serve to strengthen and keep alive the enmity of the nations. Freedom of movement, a fundamental free trade demand, does not yet exist again, and economic equality, the only means for restoring the world, is at the present moment an unknown notion.

Protectionism waxes fat and flourishes. It prevails unchallenged in Germany, it raises its head in England, and our British friends will have to fight a hard spiritual battle for their existence. May the spirit of RICHARD COBDEN and JOHN BRIGHT help them.

Morals are on the side of the free trader, for they demand that their neighbour shall prosper; they recognize that only the prosperity of others can bring about our own prosperity.

Every individual desires to supply his needs as cheaply as possible and knows that this is only possible if others prosper; that is the service rendered by our great Free Trade teachers. But the effort not to injure others is a moral one. The contrary is immoral and the protectionist guilty of this sin.

In any case they advance serious arguments and these are the same in all countries. National interests are used to cloak egoistic interests. Woe unto him who opposes them.

It was said by ADAM SMITH, "A Member of Parliament who supports every proposal for strengthening this monopoly may count not only on securing the reputation of a man who understands business, but may also obtain popularity and influence with a class of people who, owing to their number and riches, have great weight. If, on the other hand, he opposes them, or if he has enough standing to hamper them, neither the most acknowledged honesty, the most elevated nor the greatest services to the state can protect him from the most dishonourable calumnies, personal insults and at times even actual physical danger which ensue from the insolent exasperation of furious monopolists disappointed in their expectations".

It may naturally be objected that to claim morality as the foundations of Free Trade is presumption on the part of the Free Trader, and there are undoubtedly people who take no interest in the question of Free Trade and protection and who make such an assertion. These people will certainly say that what the Free Traders say of the defective ethical position of the Protectionists, is conversely said by Protectionists about Free Traders. If we study however the literature of all ages relating to Free Trade and Protection, and more especially the literature of periods of the greatest intellectual production, we shall find that Protection has never claimed any moral grounds for its demands, and that the interests of the purse were always advanced as the grounds for the demands for protective tariffs. As indeed is evident from the word itself, protection was demanded against somebody or other and as the immorality of such a demand would have been clearly apparent and been evident in the fact itself to everyone, the demand of egoistic interests was disguised either as a national interest, or as a protection of the workman, or as something

else. In every case it was some sort of protection; there was always hostility to others latent in it.

In our own time we are especially experiencing a powerful revival of the protectionist movement, and if we examine the movement in the various countries for its moral value, we shall always find that there is nothing moral in these demands.

If a small state in East Europe that has been newly created by the outcome of the war, possesses no other property than an extensive forest, and encloses itself with high tariff walls in order to procure state revenues, no moral grounds can be adduced for doing so; it only affirms that national interests demand its creation and that it must be kept in existence by means of high protective tariffs as being the only source of revenue of the new state.

The usufructuary of this system is not the population of the whole state, for all their necessities are increased in price or indeed they are, in consequence of the high protective tariffs, absolutely unable to obtain these necessities.

It is possible by means of this system of protective tariffs artificially to rear a national state and the sole usufructuary of any such creation would be the bureaucracy who guide the destinies of the state. This brings us, however, to the chapter which unfolds to us the most pernicious effects of protection and coercion, viz. the creation of a bureaucracy.

Last year in London we spoke in the intimate circle of Free Traders about such absurdities and I mentioned that a certain country had a shortage of horses. From the point of view of sane common sense, the first thing to be done would be to open the frontiers and to put no obstacles in the way of the importation of horses. The initiative of keen business men would have seen to it that the shortage of horses was cleared off as rapidly as possible, and when the shortage had been made up, the natural operation of supply and demand would have automatically regulated further imports. The officialdom of this country however, who had obtained their

functions and standing through the war, took no interest in a free settlement such as this, and the permission to import was therefore made subject to the consent of officials whom we will call the Chamber of Agriculture and who were composed of representatives of the farmers. These farmers had naturally enough no interest in importing foreign horses, but wanted to sell their own animals at the highest possible prices. They could not of course escape from the demand of the consumers and permitted the importation of the horses, with the proviso that every importer should produce orders from farmers from the district of these so-called Chambers of Agriculture. What was the result? The farmers of course did not require horses which were only needed by the consumers in the large towns. The farmers therefore said "We will be pleased to give you an order, but only pro forma, as we naturally don't want delivery. Here is the certificate, so go and get the import licence and sell your horse at a profit in some town or other. You can pay us a certain amount for our readiness in helping you".

Thus in an immoral manner the doors were opened wide to corruption. The blame lay solely and entirely at the door of a dominating bureaucracy which wanted to save its own skin. They would long ago have disappeared under the influence of Free Trade. The protective tendency of the war and the post-war period makes their existence possible at the expense of the whole state.

This example was at once supplemented by examples given by the representatives of other nations. In another country, a free trader said, an organization had been created during the war which was to prevent profiteering and usury. A local organization had during about twelve months sat in judgment only on one solitary case of profiteering, viz. the case of a shopkeeper who had charged 3d. instead of 2d. for a needle. This local body wrote therefore to the central office that they had decided to wind up the business as there was no longer

any need for their existence. Sane common sense would have greeted the proposal of the local body with joy, but what did the central authority do? They wrote at once to the local organization and begged them for Heaven's sake not to wind up the business, but on the contrary to convene a meeting of all the members before whom a higher official of the central authority would appear and endeavour in a speech to prevent the winding up of the local body, which meant the breaking up of the whole system. The bureaucracy feared they were going to lose their jobs, if it were seen that the institution was no longer necessary. The institution was therefore maintained at the expense of the community.

In my own country there exists a special organization for supervising the imports, and this organization has the right to confiscate all goods imported without a licence for the benefit of the state. There would perhaps be nothing to object to in this, but the goods thus seized must be realized, and the supervising authority has therefore created a special department for the sale of the confiscated goods, and I consider it as the richest of jokes that the goods confiscated should again be offered for sale by this department to any buyer.

Such an institution has nothing to do with morals and common sense. We have often enough heard of the old tsarist days in Russia, when the police had men in their service who managed to get a footing in revolutionary circles, and betrayed to the State all dangerous ideas and plots. No objection can perhaps be taken to this, but there were times when there was nothing to betray, and these men in the pay of the police themselves created the grounds for laying information by acting as agents provocateurs and then betraying to their employers the unfortunate wretches who had fallen into their trap.

Is it not evident that a bureaucracy which sees its existence threatened owing to shortage of work will adopt the same means, and that they are putting restrictions on the free

intercourse of the nations in order that they shall not lose their jobs?

This has nothing in common with morality or common sense; it is a sequel to the immorality of the war.

Let me, I beg of you, quote one more example.

Germany is known for its powerful and prosperous piano industry. Naturally the after-effects of the war have created a bureaucratic organization for dealing with the export licences of pianos. This organization was of course established with the cooperation of the piano industry. A binding resolution as to the sale of pianos abroad was however passed, according to which pianos were only to be delivered to those who were recognized dealers in musical instruments. And now the big manufacturers are accused of only recognizing as dealers those firms who carry their goods. Other dealers who wish to purchase from small musical instrument makers cannot do so because they are not recognized as dealers. The manufacturers in question and their dealers or agents work hand in glove and get rid of all troublesome competitors. Has such a system anything in common with morals? Undoubtedly the chosen minority of large dealers are doing good business, but nobody can claim that they are promoting the welfare of the country as a whole. The Free Trader with his moral principles would give a fair field and no favour to all competitors. The adherent of protection and coercion, who takes no account of morality, ruins his fellow-men in cold blood if only his own profits are high enough. Morality is again on the side of the Free Trader. And just as things are in Germany with the egotistical protectionist, precisely the same thing happens in other countries. Let us keep to the music trade and cast a glance at what is happening in England. Musical instruments are paying a high duty there. Imperial Preference? Who will affirm such? Does any part of the British Empire manufacture musical instruments? Are we not here dealing with a protectionist movement? It goes under the name of

Imperial Preference, and I read with the greatest pleasure a speech by my friend HENRY VIVIAN, who is known to all Free Traders, in which he finally said in reference to Imperial Preference: "In other words this ideal of a British Empire under the stimulus of Imperial Preference monopolising for the purpose of the Empire the materials found within it, is contrary, not only to the interest of the Empire itself, but also to the world's welfare, and such a policy must, if pursued to its logical conclusion, lead to future wars."

You may twist it about as you like, but you will always come to the conclusion that morality promotes Free Trade, and in the subconsciousness of every human being the knowledge is latent that prosperity can only thrive on the soil of general prosperity.

When we therefore combat for morality, we combat for the interests of everyone among us; when we enter the lists for Free Trade, we do so for morality. The one is inconceivable without the other. Only morality can help the world on its legs again, and only Free Trade forms the basis for a peaceful association of the nations.

ÆSCHYLUS said, "Intelligence is by far weaker than Necessity". Intelligence was to lead us back to Free Trade and Morality. Nobody believes that, for intelligence and common sense are for the time being lost, but iron necessity will compel us to use intelligence, the system of hostility to the foreigner and of protective tariffs will fall to the ground because it rushes us into fresh enmities and wars. Morality, which will finally be forced on us, will compel us to accept Free Trade, and with it the peaceful cooperation of the nations.

Let us therefore not grow weary in the battle for Free Trade and Morality. Free Trade, Peace and Good Will among the Nations must inspire our actions.

FREE TRADE AND DIRECT ACTION

by

M. D. PETRE.

I trust that my audience will not be scandalized when I tell them that this paper contains an appeal for a form of *direct action*. I conceive two forms of direct action -- the first, and the one most usually understood by the term, is a device through which control is exercised by one section of the community over the rest, and the will of this one section is enabled to predominate over the liberty of action of the whole community on some one point.

This form can only be justified by extreme necessity; it is, in itself, a weapon of sheer coercion, and all methods of coercion should be repudiated, as far as possible, in a free community.

The second form of direct action which seems to me to be also rightly describable as such, is one by means of which any section or class of the community aims at a just and constitutional independence in its own domain. This form is not directed to the coercion of the rest of the community, but to the maintenance of a rightful liberty in its own department of life and work and influence. Now this second form of direct action seems to me as legitimate as the former is risky and questionable except in very special and urgent cases.

The first form aims at domination, -- the second at independence; the first seeks power, the second seeks liberty.

In point of fact I think I am correct in saying that the first meaning of the expression Free Trade was a claim for liberty in the second sense of direct action, as I have described it. It was a demand, on the part of the great trading companies for freedom of action in their own concerns.

Now more and more it seems to me that the true development of every constitutional government is in the direction of a kind of federal system applied to the various classes of society as we have hitherto understood it to be applied to different states gathered together under one form of central government. Let me explain myself. The best thing which any government can do for us is not to govern us but to secure for us the necessary conditions of self-government. Its chief task is to check the interference of one interest with another; to control the forces of social egotism in so far as the one tends to encroach on the rightful domain of another and to take more than its due place in the general map. What we all chiefly want is not to be ruled but to be let alone; and the supreme art of government is to secure that all sections and departments of society shall work their own way, follow their own course, develop their own resources, and, at the same time, leave all other sections and departments of life freedom to do the same.

I am expressing the idea roughly and incompletely; but just as in matters of science, history and philosophy the world has come to recognize that not even the highest authority, religious or other, has the right to impede or regulate the rightful working, according to its own laws, of each particular science, so it seems to me that the true trend of political science should be in the same direction as regards the action of political authority over each department of social work and effort. Its task is to combine, to co-ordinate, but not to coerce or interfere.

To me it was a matter of regret that in one of the late dealings with Germany, in regard to the 50 % tax which was to be levied on them by means of those with whom they had concluded contracts, this point was not urged as much as it deserved. I know that it was not overlooked, but neither was it made, as it should have been, the ground for strong outcry. What seemed to me most portentous in the proposal was the attempt to ride the political chariot right through

the machinery of trade and business; to substitute political law for commercial rectitude; to turn the written contracts of honourable men of business into „scraps of paper”.

May I be rude enough to tell you that when I was lately in France and had to dispute on certain matters with my very dear French friends, I found that they were fond of saying that a profound distinction was to be drawn between the English *gentleman* and the English *man of business*. They professed unbounded respect for the former, but extreme distrust of the latter. Now I will make bold to say that in no type of Englishman are the truly gentlemanly qualities to be found more abundantly than in our best men of business. Hence I can conceive that, for them, nothing could be more galling than to be compelled to act in a manner contrary to their established standard of honour and rectitude. It seems to me that every department of life should be ruled by a code of ethics proper to that department; and that every class should be determined to maintain the sacredness of its ethical code as an essential condition of its existence. “Death rather than dishonour!”

All this is to lead up to my main conception, which is that business matters, commercial enterprise, trade and industry, should follow the laws of their own existence; should endure that general political control which is essential to the proper working of all classes of the community but should not endure interference with their own intrinsic laws and essential concerns.

But this rightful immunity has to be secured by rightful effort, and we shall wait a long time if we wait for the State to do those things which we have to do for ourselves, though under its lawful guidance and protection.

I have referred to the first meaning of the term Free Trade — there was, I believe, at least one other before we arrived at our present and still somewhat variable, conception of the same.

As Free Trade was first a claim for liberty of action on the part of trading companies, so it was secondly a counter

claim, on the part of the public, for a general right to exercise trade and commerce. The first form of Free Trade had become too much a form of privilege; the second was a movement to abolish the privileges while maintaining the rights.

In this way it would seem that Free Trade was, first of all, a movement of justifiable self-interest; a claim for the freedom essential, in its measure, to every kind of work.

In its next form it was a movement to restrict the exclusive claims of those who had gained what they required, and were disposed to transform right into privilege.

Free Trade in its last stage should be, according to the great Hegelian principle, a synthesis following on thesis and antithesis — first the claim of self, next the claim of others, lastly the union of both — egotism, the thesis; altruism the antithesis; co-operation the synthesis.

International free trade cannot be purely idealistic; each country must seek its own welfare, even by methods of competition, just as a business firm must pursue its own development, even by methods of rivalry. Free Traders cannot afford to assume a Pharisaic attitude, and claim not to be as other men: their principles must be sound in business as in ethics.

But it must also have its widely social, its ethical, its idealistic, I will even say its religious character. It must stand for that fundamental philosophy of life which teaches us that we cannot seek the truly best for ourselves without also seeking the truly best for all, because we are dependent on all as all are dependent on us.

In this, its spiritual character, Free Trade is the denial of a huge besetting fallacy; the fallacy of those who believe that they can only be tall when others are short, strong when others are weak, rich when others are poor. To believe in Free Trade is to believe that every policy which seems to be of advantage to the one at the expense of the other has a destroying worm at its core; that nothing can be truly good for us which is not good for everybody else.

Free Trade is the creed of those strong and shrewd and openminded business men who sincerely believe in the principle of world-wide co-operation. Never was the principle more needed; but never was it less likely to be realized by purely political forces, by the powers that be.

I return then to my first theme, which is the advocacy of a form of direct action; of the combination of employers and employed throughout the world; not to tyrannize over others; not to dictate their will by means of threat; but to secure their own essential independence in their own particular domain.

It may well be that the Labour Section of the League of Nations will eventually prove more potent for the achievement of the ends of the League than its purely official section. So of a worldwide League of Commerce, directed to the internationalization of trade and industry. Such a League would easily acquire a right of indwelling that every Government would be bound to respect; it would claim no outside authority but true internal independence. Its transforming action might become immense, and in so far as it worked persistently in harmony with its own highest principles it might become the most potent factor of peace by becoming the chief factor of universal human co-operation.

FREE TRADE

by

EDOARDO GIRETTI.

In this Report I desire to treat of an argument which, while logically connected with No. 1. on the agenda of the International Free Trade Congress, may be considered as a question preliminary to the agenda down for discussion.

It concerns the very definition of Free Trade as it can be practically followed and carried out at the present time by international agreements.

For an Englishman, perhaps, the question I have just referred to does not occur with the same importance that it has for a Frenchman or an Italian.

The English words "Free Trade" and "Free Trader" possess a meaning much more precise, and at the same time much more comprehensive, than the corresponding French words "Libre-Echange" and "Libre-Echangiste" or the Italian „Libero Scambio" and "Libero Scambista" which in common parlance have come to be applied almost exclusively to the customs system and the commercial relations between the various States.

It is owing to this change in meaning in ordinary usage that Italian economists have been induced to coin the words "Liberismo" and "Liberista" which translate more exactly the original idea underlying the English words "Free Trade" and "Free Trader", applying, as they do, both to the system of international commerce and to that of the production and exchange of commodities and services within the frontiers of each country.

The Italian "Liberista" like the English "Free Trader", is a man convinced that the greatest social good can be ensured

by giving free play to the natural law of competition which tends to permanent equilibrium between production and consumption, without the State, and in name of the State the incompetent and irresponsible organization of the Bureaucracy, intervening to regulate and control down to the smallest details the processes of the economic phenomenon, apart from the intervention which may be and is indeed justified for reasons of public order, morality or hygiene inherent in the nature of the part assigned to the public powers in every civilized society.

It is evident that "Liberismo" or "Free Trade" taken in the sense I have just mentioned is not a system which can be applied in war time when, to a greater or lesser extent, the economic interdependence of the nations is limited or abolished, and it is the duty of every State in peril, even if it sacrifices or neglects its immediate material interest, to conform to the rule which ADAM SMITH has so happily formulated in his celebrated definition "Defence is much more important than Opulence".

Having made this observation, we must however recognize that, with the help of private interests, all the belligerent countries without exception during the recent war considerably overshot the reasonable limits that the state of war, with and by reason of its irresistible necessities, imposed on the exterior and interior liberties of trade.

In every country, taking advantage of the extensive powers that they had succeeded in getting granted by the Parliaments, astounded and aghast at this great unexpected catastrophe, the European Governments, neutrals almost to the same extent as belligerents, hastened to appropriate a host of functions which were formerly considered as belonging to the scope of the individual initiative and responsibility of the citizen.

Thanks to this progressive confiding to the State of the direct management of numerous branches of economic activity, and to the control assumed by the Governments over commerce

and industry in general, by mobilizing labour, fixing prices, limiting profits, regulating imports and exports, setting up by compulsion purchasing and selling syndicates, monopolizing the exchanges, etc., everywhere in Europe there has been formed a monstrous corps of officials, who having a personal interest in not considering the reason of their functions at an end, continue to rely on the unrestricted authority that they acquired during the war with the object of keeping their posts and their appointments and of preventing with all the means in their power the abolition of "the harness of war" which they are the only ones not to think absurd, unbearable and a nuisance in peace time.

In this manner the economic system of the war is continuing on a vast scale throughout Europe in spite of the fact that the circumstances which possibly had justified them to a certain extent have long since ceased to exist.

An International Free Trade Congress would be simply in the realms of pure theory if it refused to take into account the situation as it is at this moment, and if it did not take care above all things to define and sharply outline the subject of its discussion, thus bringing out clearly the fundamental verity "that it is impossible to arrive at true International Free Trade so long as the various nations persist in maintaining in peace time their war-time economic legislation and regulations, and do not make up their minds to put a definite end to the arbitrary despotism of a corps of irresponsible officials by returning to the natural system of individual initiative and responsibility guaranteed by law and international good faith".

The question of the customs tariffs, which was formerly all-important, has in the present situation of Europe and of the world lost at least a great part of its importance.

The fact that a certain product is legally burdened on entering into any country whatever by a duty of 10% or 100% of its value in order to protect the national industry

is relatively indifferent, when it is within the power of a few officials, advised and too frequently inspired by national manufacturers interested in prohibiting and regulating, by administrative and secret channels, competitors whom they have reason to dread, to hamper or to prohibit the importation of foreign goods, without their being in any way obliged to justify and publish the motives of their proceedings and decrees.

I will give a few examples of what I am stating, choosing them from among those I know best in my own country, but every member of the Congress can easily quote a number of similar ones referring to the other countries in Europe.

By a press discussion which I myself initiated a few months ago, it was proved that at the very moment when the Italian delegates to the League of Nations were protesting, rightly I think, at Geneva against the price maintained by the British Government for exports of coal, the importing of English coke into Italy continued to be prohibited in order to protect the stocks of the Italian Government and the national gas industry!

Nominally the importation of sugar is now permitted in Italy, but in reality it is subject to the caprice of the Italian sugar manufacturers and beet growers for whom the Government continues to guarantee the selling price of their products. Import licences are issued, proportionally to the shortage in the national crop, for the use of sugar in industry, to the manufacturers of products containing sugar (as chocolate, jams, biscuits, liqueurs, etc.) who were obliged to form a syndicate under the control of the Government. But a private person or a dealer who wished to import sugar would apply for such a licence in vain. The Government greatly desires to be agreeable to the "syndicate" of sugar manufacturers which has ties with powerful financial groups whose ill humour M. GIOLITTI himself had once to suffer for a time as he had conceived the plan of reducing the protection of the sugar industry.

After a very unfortunate trial of fiscal monopoly for the importation of coffee, this trade has just been decontrolled officially.

But there again it is a question of liberty "sub conditione", postponed to the day when the syndicate of wholesale coffee merchants shall have liquidated the formidable stocks, mostly consisting of damaged coffee of very low grade, which the officials of the Monopoly were clever enough to purchase in Brazil when prices were at their highest.

A certain transition between war and peace was no doubt inevitable, and it can be easily understood that the Government found itself temporarily under the necessity of being careful when passing from the system of State controls and interventions to the freedom of trade.

But nearly three years have gone by since the Armistice ended the war, and there is still every reason to fear that officialdom has no intention of voluntarily and definitively stripping itself of the arbitrary powers which it succeeded in getting granted with the object of protecting itself and of protecting the national industry.

It is true that the Government has at last been obliged to abolish the "Istituto Nazionale dei Cambi" which had become too great and general an evil, and to restore, with reserves however, the freedom of the exchange business. Nevertheless many commodities to be imported into or exported out of Italy continue to be subject to special licences which must be issued by the Minister of Finances on the advice of an Imports and Exports Committee, which contains a large representation of industrial combinations in whose interest it lies that such licences should not be granted.

Further by an Order in Council, a residue of our wartime legislation, of the 3rd. February 1921, but only published in the "Official Gazette" of the 1st. June 1921, No. 663^{cc} permission is granted to the Minister of Finances in consultation with the Chancellor of the Exchequer and the Ministers of

Industry and Commerce and Agriculture, and after having heard the Imports and Exports Committee, and further another interministerial Committee, to regulate in any manner whatsoever the importation of goods identical or similar to those which, in compliance with the clauses of the treaties of peace, are ceded to the Italian Government by the former enemy States as war reparation indemnities".

The first application of this Order was made by a ministerial decree published in the "Official Gazette" of the 3rd. June 1921, by which the Minister of Finances prohibits until further order the importation of synthetic dyes and the intermediary organic products of their manufacture, reserving the right from time to time to allow the importation on the application of interested parties of:

a. Synthetic dyes which it is not possible to replace in practice by similar dyes produced by the national industry, and the intermediary products which are not prepared by the national industry.

b. Organic synthetic dyes and intermediary organic products which are not prepared in sufficient quantity for home consumption within the limits of the quantities that the national industry is not able to produce.

It is easy to understand that the combine of Italian dye manufacturers will not fail to exert all the influence of which they dispose in order to reduce to a minimum these import licences which the Minister of Finances reserves the right to grant.

It is therefore the pure ministerial and bureaucratic arbitrary power which, from the point of view of the shortsighted and selfish national manufacturers, advantageously replaces the most protectionist customs tariff.

It follows that Italian Free Traders must at the present time consider as their first and principal duty to lead a campaign against the continuation of a system, the result of which is to reduce every form of individual commerce and

individual enterprise to a simple and kindly concession of the Government exercising an arbitrary power, and not surrounded by any guarantees of effective control by public opinion.

This situation which I have just described in the case of Italy exists also with very few variations in England, France and the majority of European countries.

No real system of free trade can be established so long as international agreements are not based on the solid foundations of mutual good faith of the Governments and on the abolition of administrative arbitrariness, too easily influenced by the private and blind interests of untiring and political financial and industrial combines.

I therefore move the following

RESOLUTION.

The International Free Trade Congress considers that the return to the freedom of trade and industry in each country by means of abolishing war measures and the arbitrary control of officialdom is the essential condition to ensure, in a spirit of mutual loyalty and good faith, the normal working of international conventions inspired by the necessity of allowing the untrammelled operation of the natural law of economic interdependence, from which alone the civilized world can expect the rapid and radical cure of the terrible war crisis;

and it further advises Free Traders of all countries to organize themselves with the object of pursuing actively and with a common accord the campaign for the practical realisation of their programme of "*Peace, Free Trade, Good Will among Nations*".

CONTENTS.

List of committees and members	Page VIII
Preface	XV
Subjects treated at the Congress.	XVIII

Proceedings:

First Session.	3
Afternoon Session.	20
Second Session.	42
Third Session.	59
Congress Banquet.	84

Papers submitted to the Congress:

1.	"How far can Free Trade restore national and world economic well-being", by C. F. STORK, Esq.	97
	"To what extent can the economic revival, both national and international, be promoted by Free Trade?" by Dr. ANT. VAN GIJN	113
1a.	"Protection and Unemployment", by J. A. HOBSON, Esq.	133
	"Protection and Unemployment", by YVES GUYOT, Esq.	146
1c.	"Free Trade and Production", by F. J. SHAW, Esq.	153
	"On the theories of Free Trade and Protection", by FABIAN VON KOCH	161
2a.	"Free Trade and Exchange", by A. B. VAN DER VIES, Esq.	195
	"Free Trade and the Foreign Exchanges", by Sir GEORGE PAISH	201
3.	"Colonial Preference", by Prof. Dr. J. C. KIELSTRA	209
	"The Evils of Colonial Preference", by E. G. BRUNKER, Esq.	222
	"Colonial Preference", by G. SCHELLE, Esq.	233

4.	"To what extent might Free Trade remove the causes of friction between the nations", by Professor Dr. J. P. A. FRANÇOIS.	239
	"How war would Free Trade remove the causes of international disputes?" by G. GALATI-BLASER, Esq.	249
	"Can Free Trade prevent International Conflicts?" by J. BERLIT, Esq.	260
5.	"The Moral Aspects of Free Trade", by Professor Dr. D. VAN EMBDEN	265
	"The Moral and Psychological Roots of Protectionism", by NORMAN ANGELL, Esq.	274
	"Free Trade and Ethics", by HERMANN BUTZKE, Esq.	278
	"Free Trade and Direct Action", by Miss M. D. PETRE	289
	"Free Trade", by Dr. ED. GIRETTI	294

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